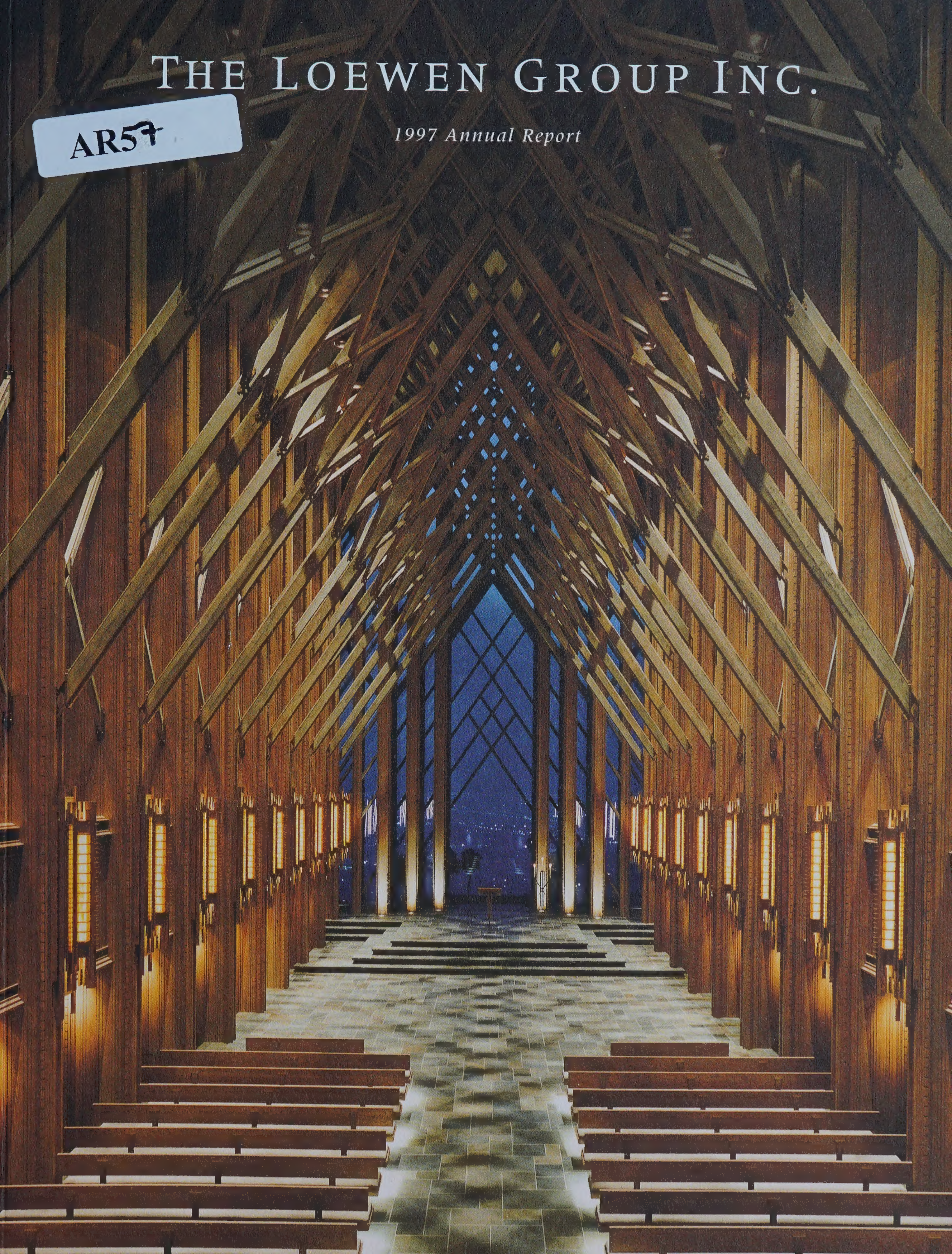
THE LOEWEN GROUP INC.

1997 Annual Report



Pictured on the cover is the interior of SkyRose Chapel, designed by renowned cathedral architect Fay Jones, a student of Frank Lloyd Wright. It overlooks Los Angeles from its spectacular setting at Rose Hills Memorial Park and Mortuary. The Loewen Group is proud to be affiliated with Rose Hills, the largest single-location cemetery and mortuary in North America. Opposite: The exterior of SkyRose Chapel.

The Loewen Group Inc. has a management contract with, and a major investment in, Rose Hills with an option to acquire 100 percent of the equity, beginning in November, 2000.

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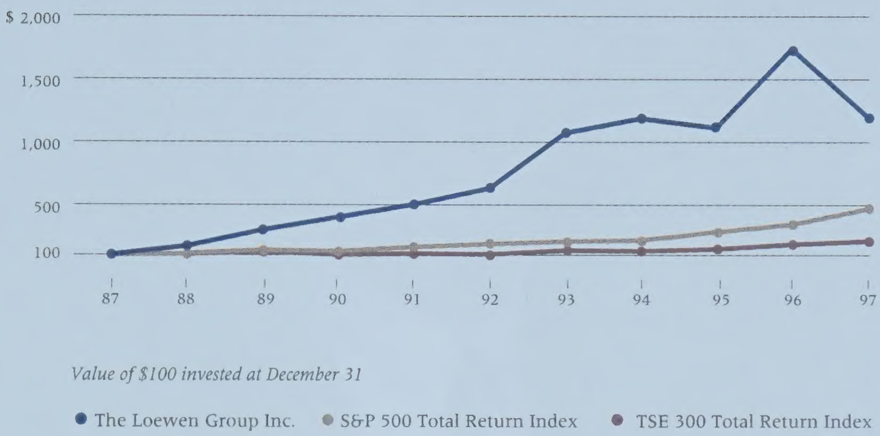
Since becoming a public company in 1987, The Loewen Group has grown to be the world's second largest and North America's fastest growing publicly-held funeral service and cemetery corporation in terms of revenues and assets. The Company owns or operates more than 1,100 funeral homes and 500 cemeteries and performed 228,000 funerals and interments in 1997. Loewen's 16,000 employees are dedicated to providing sensitive and caring service to families and communities in the United States, Canada and the United Kingdom. The Company's unique brand of succession planning and consolidation ensures that the proud heritage, names and reputations of former owners are protected and honored and each community continues to receive quality funeral and cemetery service.

One hundred dollars invested in Loewen Group stock on December 31, 1987 would, at year-end 1997, be worth $1,202, significantly above the comparable returns offered by the S&P 500 and the TSE 300.

Ten-Year Cumulative Total Return



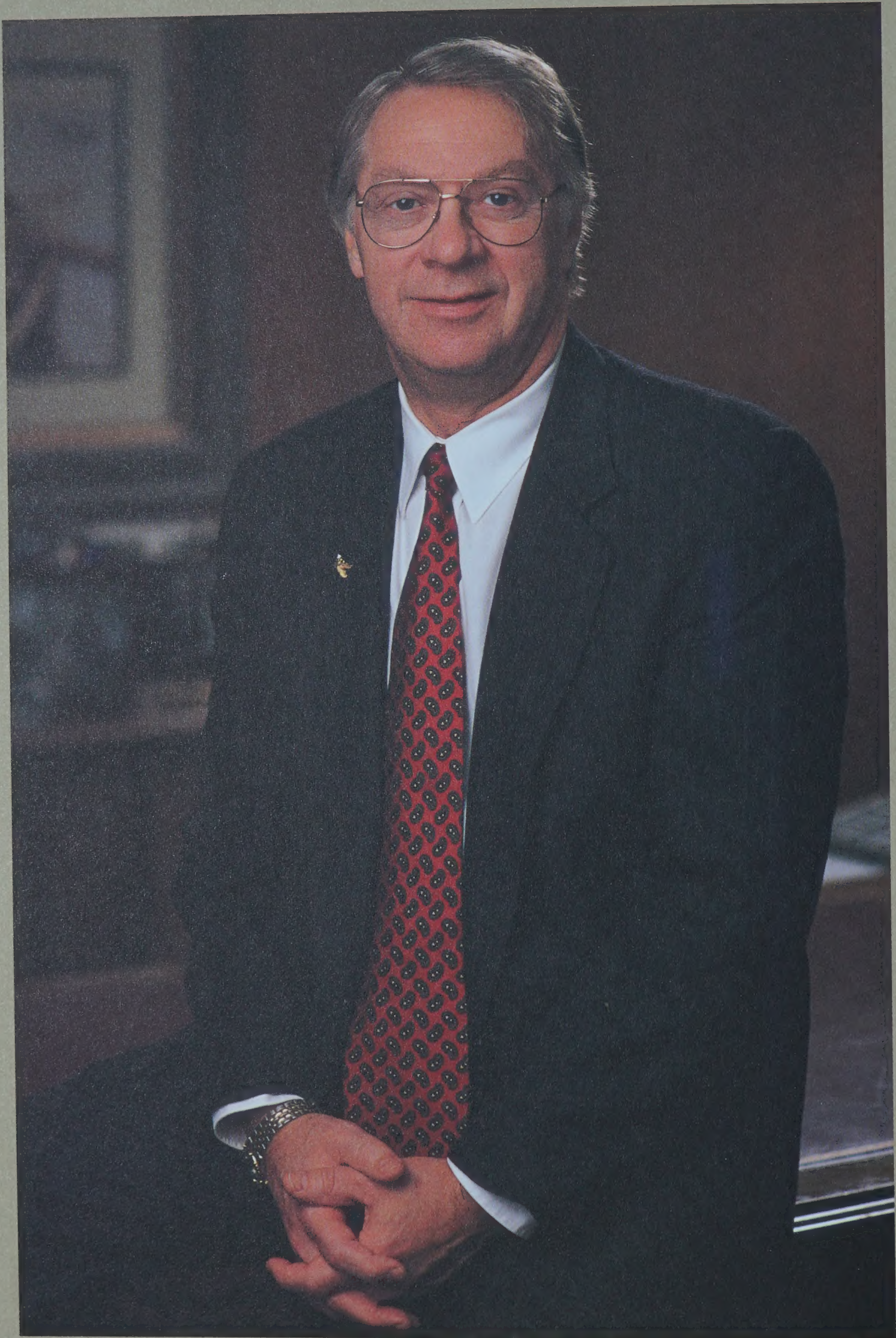
The Company incurred $89 million of restructuring, strategic initiative and other charges in 1997, a substantial portion of which relates to the continuing effort to streamline operations and enhance shareholder value. These changes had a significant effect on 1997 results. Please refer to the Chairman's Report, immediately following and the Management Discussion and Analysis for further information on how these actions should affect results in 1998 and beyond.

Highlights

Years ended December 31, 1997 and 1996

Monetary amounts expressed in thousands of U.S. dollars, except per share statistics

	1997	1996	% INCREASE
Revenue	$ **1,114,099**	$ 908,385	22.6
Net Earnings	$ **42,728**	$ 63,906	(33.1)
Earnings per Common Share (fully diluted)	$ **0.49**	$ 0.97	(49.5)
Fully Diluted Weighted Average Number of Shares (in thousands)	**67,313**	57,385	17.3
Total Assets	$ **4,503,160**	$ 3,496,939	28.8
Long-term Debt (Including Current Portion)	$ **1,793,934**	$ 1,495,925	19.9
Shareholders' Equity	$ **1,540,238**	$ 1,048,200	46.9
Common Share Price at Year-End			
Toronto Stock Exchange ($Cdn.)	$ **36.80**	$ 53.50	(31.2)
New York Stock Exchange	$ **25.88**	$ 39.13	(33.9)
Dividend per Common Share	$ **0.20**	$ 0.20	—
Funeral Homes	**1,070**	956	11.9
Funeral Services	**153,000**	142,000	7.7
Cemeteries	**483**	313	54.3
Interments	**75,000**	45,000	66.7
Employees	**16,000**	16,000	—



The Next Decade

The financial results for the year 1997 were disappointing to management and shareholders alike. More importantly, management recognized the serious challenges facing the Company and took decisive actions beginning in September to position the Company for a strong recovery in 1998 and to create a lasting foundation for long-term disciplined growth in shareholder value.

In our first 10 years as a public Company, The Loewen Group and its shareholders enjoyed 21.4 percent compound average annual share price appreciation. Starting with only 47 funeral homes and one cemetery in 1987, The Loewen Group has become the second largest operator of funeral homes and cemeteries in the world. Today, the company is a large and diversified organization with over 1,100 funeral homes, 500 cemeteries and 50 crematoria.

"We strengthened senior management and appointed an executive committee to drive further continuing improvements throughout the Company."

Raymond L. Loewen

Chairman and Chief Executive Officer

We are extremely proud of our history of accomplishments, particularly given the challenges we have overcome. The strong character of our people at every level and our determined management team enabled us to grow continuously, while providing the highest quality service to the families we serve.

Severe Challenges In 1997 and A Strong Response

Rapid growth creates both challenges and opportunities. Like many swiftly expanding companies, our dynamic growth outpaced the development of certain of our management systems. The challenge of integrating the 297 funeral homes and 307 cemeteries acquired in 1996 and 1997, coupled with a period of industry-wide, lower-than-average death rate, depressed margins below our historic anticipated performance. Additionally, costs and margins were not kept in line, nor was full advantage taken of the synergy and cost efficiencies available from the Company's greatly expanded base.

In response to a disappointing third quarter, management took swift action to correct the shortfall and to harness the Company's growing internal earnings power. These initiatives are already increasing gross margins in our major lines of business. We expect to save $25 to $30 million annually, or $0.25 to $0.30 per share, primarily as a result of:

- Closing the Cincinnati corporate office;
- Reducing employees by some 550 corporate-wide; and,
- Retiring high-cost debt.

The cost of implementing these measures was included in the 1997 pre-tax charges totalling $89 million. The initial benefits of these initiatives were reflected in the Company's normalized fourth quarter earnings – evidence that our recovery plan is on track.

Executive Committee Appointed

In addition to the restructuring announced in September, we began a longer-term process of strengthening our management team to meet the challenges of another decade of sustained growth. Most notably, we appointed a four-person executive committee to oversee day-to-day operations and to enhance performance throughout the Company. The executive committee is comprised of Michael Weedon, who joined the Company in November as Executive Vice-President and Chief Administrative Officer; Larry Miller, Executive Vice-President, Operations; Paul Wagler, Senior Vice-President and Chief Financial Officer; and, Andrew Scott, Senior Vice President, Corporate Development.

The mandate of the new Executive Committee is to improve performance, margins, revenues and service quality throughout our 1,600 individual locations, and to work with me in setting strategic direction. Further, they are working with all employees and partners to ensure focus and operational excellence.

Strong Industry Fundamentals Provide Support for Long-Term Profitable Growth

The industry has demonstrated a long-term predictable trend of growing annual volume. Demographic analysts project a 60 percent rise in number of deaths during the next 20 years.

Loewen is positioned to build on the industry's strong fundamentals:

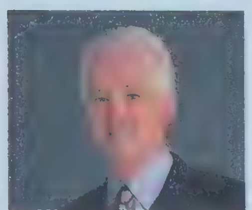
- The North American market is only partially consolidated, with at least a decade or two of further consolidation likely;
- The rest of the world is just beginning to consolidate;
- The top three North American firms are uniquely positioned to capitalize on these global trends;
- Our Company has grown faster than the industry during the past decade of consolidation and we are well poised for continuing expansion;
- Loewen's financial market performance has far exceeded the S&P 500 index during the past 10 years, and we are determined to achieve this superior performance for the next 10 years; and,
- Our Company has strengthened its senior management team and is focusing on improving systems and accountability to fully capitalize on future opportunities.

In conclusion, we are truly thankful for the support and patience of our shareholders and other financial stakeholders during a pivotal year. Our employees once again have demonstrated extraordinary dedication in serving our client families and commitment to our vision of being the leading funeral and cemetery service company.

Raymond L. Loewen

Chairman and
Chief Executive Officer

Michael Weedon *has over 20 years senior management experience in large public and private corporations. Prior to joining Loewen on November 3, 1997, he was Executive Vice-President and Chief Operating Officer of Viridian Inc. (formerly Sherritt Inc.) where he played a widely acknowledged major role in substantially improving that Company's operating performance resulting in a dramatic increase in shareholder value. He holds a Masters degree in business administration from the University of Western Ontario*



Larry Miller *has over 25 years experience in building, managing and owning companies involved in the cemetery and funeral business. His company, Osiris Holdings Corporation, became part of Loewen in 1995 and Mr. Miller immediately assumed senior executive responsibilities at Loewen. He holds a Masters degree in business administration from Temple University.*

Executive Committee Report

The Executive Committee is providing leadership to improve the Company's financial and operating performance. The primary goal is to return to the disciplined management and earnings performance the Company enjoyed prior to the distractions of the past two years.

Executive Committee members are working together to provide coordinated leadership of the Company's operations and to instill a greater sense of corporate-wide accountability.

As part of this management process, intensive quarterly reviews are conducted with support managers, regional presidents and senior operational staff. The result is that executive, senior and operational managers are working together to move the Company ahead to profitable growth.

A team led by Michael Weedon is working to upgrade the Company's management reporting systems with the objective of increasing analytical capability and multi-year forecasting accuracy. Cost-saving activities have been identified and a detailed analysis of each funeral home and cemetery is underway to enable further cost reductions, while better serving families.

"As someone new to the Loewen Group, I am impressed with the caliber and character of the Company's employees. The spirit and motivation of the people are excellent — both key ingredients for a successful strategy of increasing shareholder value," says Michael. "We are introducing a higher level of accountability throughout the Company while simultaneously equipping our managers and employees with the systems and information to do their jobs more effectively and efficiently."

Larry Miller stresses that operating goals and budgets have been set by employees in the field with guidance from senior management. "These are objectives they believe they can accomplish — realistic targets for which people feel ownership. We are identifying numerous opportunities for cooperation and cost savings within and between funeral homes and cemeteries throughout the system."

Larry is leading the Company-wide reorganization, begun in late 1996, to merge the funeral home and cemetery divisions — marrying two distinct cultures to create a coordinated day-to-day approach to the business and to become the consumers' preferred full-service supplier.

Agreements have been signed with several key suppliers to begin taking better advantage of the Company's increased purchasing power. New agreements are in place for caskets, vehicles, office supplies and telecommunications. More agreements are under negotiation.

"Improving our market share is an important goal for 1998," says Larry. "Additional training of funeral directors will encourage innovation and better merchandising. Our goal is to become the lowest cost and highest value service provider in each community — to the benefit of consumers and shareholders alike."

In the area of corporate finance, the Company has lowered the interest costs of its long-term debt through two new issues in late 1997. In addition, a $455 million equity offering completed in June 1997, together with an amended banking facility, provides Loewen with the financing capability to execute its 1998 acquisition program. Further liquidity improvements and cash flow enhancement should help the Company reach its goal of returning to investment-grade status.

"It is essential to our corporate credibility and long-term access to capital markets that we maintain on-going, open, factual communications with our shareholders," says Paul Wagler. "To that end, we have enhanced our investor relations capabilities and continue to be accessible to investors and analysts, reporting regularly on progress toward accomplishing our overall objectives."

Andrew Scott says the strategy of capitalizing on operating synergy at existing funeral homes and cemeteries is being extended to include new acquisitions. The Company puts a priority on searching for acquisitions that strengthen its existing network. Newly-acquired funeral homes and cemeteries are being folded into the system faster and regional management and corporate development staff are jointly accountable for ensuring this trend continues.

"We are proud of our corporate development team and its track record of making disciplined acquisitions. New management tools are enabling us to build on our knowledge and experience," Andrew says. "This will ensure we continue to make premier acquisitions at the best price, both in North America and abroad."

Paul Wagler, *a graduate of Harvard University, has 25 years experience in corporate and international finance, having worked in North America and overseas with the Chase Manhattan Bank, Bank of Montreal, and ABN AMRO Bank. Mr. Wagler's responsibilities at Loewen include banking and capital markets, trust funds, insurance and international operations*

Andrew Scott *spent 15 years as an investment banker with CIBC Wood Gundy Inc., holding senior management positions in several Canadian cities. Prior to joining Loewen in 1995, he was Wood Gundy's regional vice-president of investment banking for British Columbia. Mr Scott holds a Masters degree in business administration from the University of Western Ontario*

Serving the Families of the Titanic *Disaster*

Snow & Co. Funeral Directors, founded in 1883 in Halifax, Nova Scotia, were called upon in the spring of 1912 to assume the responsibility of caring for the dead after the sinking of the Titanic. John Snow and his staff boarded a steamer and headed for the accident site where they prepared over 300 bodies retrieved from the icy Atlantic. Many of the passengers are buried in Halifax cemeteries, while others were shipped home to relatives.

Snow's joined Loewen in 1985. Their legacy of commitment and dedication at the time of the Titanic disaster is maintained to this day, and reflects the fine tradition of the funeral service profession of caring for the dead and caregiving to the living.

Growth Through Disciplined Corporate Development

The Loewen Group continues to grow through a focused and disciplined acquisition program. In 1997, the Company made its first European purchase in the United Kingdom. Additional European acquisitions are expected in 1998.

Acquisitions during 1997 totaled $546 million — comprising 138 funeral homes and 171 cemeteries, which are budgeted to produce about $233 million in annualized revenue when completely integrated into the Company's network.

Future acquisition opportunities for Loewen are significant, with less than 15 percent of all North American funeral homes and cemeteries consolidated. The level of international consolidation is even lower.

The Company readily responds to opportunities offered by independent operators wishing to complete their ownership "succession planning" by selling their businesses to a consolidator. With the support of Loewen regional management and partners, the corporate development team actively seeks acquisitions in markets where integration of newly acquired properties with existing Loewen facilities will produce maximum efficiencies and full service potential.

Loewen's reputation for "quality succession planning" is a distinct competitive advantage as the Company approaches independent operators about the possibility of selling their businesses. In addition to helping open the independent operator's door to the possibilities of succession planning, Loewen, with its reputation as an established industry and consumer champion, often prevails in the many competitive acquisitions where price is not the central issue for the seller.

Winchester Cathedral
Winchester, England

The Loewen Group's first acquisition in the United Kingdom, JNO. Steel & Son Ltd. is headquartered in Winchester, home of the famous Cathedral. Iain and Richard Steel operate the business founded by Richard's grandfather John in 1860. One of England's most respected regional firms, Steel has 10 funeral homes and handles over 2,500 funerals annually.

[illegible]
Chairman, Loewen Group
[illegible]

[illegible] y people, the face of corporate development at Loewen is Tim Hogenkamp, Chairman of Loewen Group International Inc., the Company's U.S [illegible] of industry experience, the [illegible] executive of The Loewen Group, Mr. Hogenkamp's [illegible] and reputation [illegible] forces the Company's stature as the industry's "preferred acquirer".

Defined Acquisition Criteria
Key to Long-Term Profitability

The corporate development team evaluates potential acquisition candidates through detailed analysis and due diligence. Loewen relies on this disciplined approach when examining the hundreds of business opportunities it considers every year.

Acquisition criteria include:

- Geographic overlap and integration benefits;
- Continued involvement of former owners;
- Community positioning and reputation;
- Potential for funeral home/cemetery "combinations";
- Backlog of pre-need funeral services;
- Pricing of services and plots;
- Cemetery capacity; and,
- Financial return thresholds.

Regional Partners
Contribute to Acquisition Success

A major factor in Loewen's corporate development success is the role of its regional partners — individuals recognized as distinguished industry leaders. These partners have sold their businesses to Loewen but retain significant leadership positions and ownership within the Company. The partners are particularly effective in dealing with the high number of small and medium-sized firms in the areas in which they operate. These smaller firms, often with less than a million dollars of revenue, comprise the vast majority of properties not yet consolidated in North America. The regional partners' well established reputations in local markets afford a level of trust and communication which makes ownership (family) succession planning issues more comfortable to discuss. It is not surprising that Loewen has led the industry for many years in the "mom and pop" arena, which has contributed to Loewen's overall extraordinary growth and success.

Grassroots Co-operation Brings Savings

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Synergy is a natural part of District Manager John DiPalma's vocabulary. Last year, John and the managers of the nine Northeastern U.S. locations for which he is responsible put their heads together and developed a plan for mutual assistance and cost reduction. Each manager runs his or her own location, but whenever any one needs help, they first turn to each other.

"It's team play, working with our friends and colleagues across the region to share resources, help each other do things better and make it profitable for everyone," enthuses John, Loewen's District Manager for Queens, Long Island, New York, Connecticut and Rhode Island.

The assistance runs from additional administrative support to lending vehicles, sharing facilities and providing professional staff — services that otherwise would necessitate hiring more people, renting equipment or contracting services from outside suppliers.

The team has worked out special interoffice charges for services rendered — about half of what it would cost for outside resources.

"That way everyone wins," says John. "The supplying manager adds to his bottom line, and the contracting manager benefits from the savings. It all adds up to increased earnings for The Loewen Group!"

John estimates the arrangement has saved the district over $60,000 this past year. The results have been shared with colleagues in other areas who are successfully adopting these ideas in their markets.


Schoen

Funeral Homes

The Loewen Group operates over 1,100 funeral homes in 46 U.S. states, eight Canadian provinces and the United Kingdom. In 1997, the Company performed 153,000 services, an increase of eight percent over 1996.

Jacob Schoen & Son
New Orleans, Louisiana

The Jacob Schoen & Son Funeral Home in New Orleans, which became part of The Loewen Group in 1996, is located on the famous Canal Street, route of the annual Mardi Gras parades. Originally a turn of the century Spanish-style mansion, the distinctive building was converted to a funeral home in the 1920's and purchased by the Schoen family in 1936. Its staff of professionals provides service to some 1,100 families annually.

Loewen distinguishes itself on the basis of quality customer service, whether that service is offered on an "at-need" basis or is arranged years in advance. The Company is an industry leader with its consumer protection programs which include a 24-hour "change your mind" policy, a "quality service guarantee" and a "special needs" program for the few who are unable to afford a funeral. Loewen understands that sensitive and compassionate personal service is crucial to customer satisfaction.

Loewen funeral homes offer a rich diversity of services and products to meet the needs of the Company's multi-ethnic, religious and cultural customer base. Funeral service revenue per call typically ranges from $750 to $7,500 with an average 1997 revenue per call of $3,400.

The majority of services were purchased on an "at-need" basis, although the Company is rapidly building an inventory of advanced planned funerals. At year-end, advance-planned funeral backlog was $967 million, an increase of $127 million or 15 percent over 1996.

In 1997, 138 funeral homes joined The Loewen Group. More than adding just the "bricks and mortar", the Company is pleased to welcome the special men and women who play vital roles in helping families cope with loss. The Company knows its employees are its most important ingredient in building on its reputation for superior customer service.

The Eagle Principle

"To soar to heights of possibilities one needs two equally healthy, strong wings —

one being that of people or service concerns,

the other that of responsible planning and fiscal management.

It is the balance of these wings that enables the eagle to soar beyond all heights."

— Raymond L. Loewen

Strength In People

People are the strength of The Loewen Group — dedicated individuals whose skills and commitment furnish quality service to families at their greatest time of need. Whether attending to families, maintaining funeral homes or cemetery properties, providing administrative support or arranging financing, Loewen employees take pride in the services they provide.

An excellent example of caring outreach is the work and community service of bereavement counselor Pat Coca in Albuquerque, New Mexico.

A former nurse, Pat first came into funeral service as a secretary at Strong-Thorne Mortuary. Her warmth and empathy were soon recognized by her colleagues.

"She radiates caring," says Strong-Thorne President Sandra Strong. "There has never been a family she's met that hasn't bonded with her."

Pat launched her first bereavement support group in 1990 and has expanded her work to include families served by both Strong-Thorne and Loewen's other Albuquerque funeral home, Fitzgerald and Son Funeral Directors. She meets with people individually and in groups and her services are in constant demand.

Pat meets with widower John Miller.

"People work through their grief in their own way," she says. "I see myself primarily as a facilitator of that process, offering a comfortable place where people can share anything they need to share."

Cemeteries

The Loewen Group operates 500 cemeteries in 44 states and three Canadian provinces. In 1997, the Company reported cemetery revenue of $422 million, an increase of 47 percent over the $287 million reported in 1996.

Memorial Park
Memphis, Tennessee

The 150-acre Memorial Park in Memphis, acquired by Loewen in 1997, is known for its spectacular floral displays and beautiful landscaping. The largest cemetery funeral home combination property in this city of over one million, Memorial Park features a funeral home with two chapels, crematorium, mausoleum, flower shop and grotto.

A dedicated cemetery staff works year round to keep properties in peak condition. This includes landscaping, grounds maintenance, road work and other aspects of perpetual care.

The careful stewardship of a cemetery's perpetual care trust fund is essential to financing a cemetery's ongoing maintenance and operation. As a result, Loewen, by investing well over 75 percent in high-quality bonds, takes very seriously its commitment to prudent management of its over $200 million of perpetual care trust funds. In 1997 and 1998, the Company began reducing outside money management costs and enhancing returns by consolidating portfolios with a significantly smaller number of outside fund managers.

Long-term success in the cemetery business is also a function of the hard work and dedication of the Company's marketing and sales force. A majority of a cemetery's income is generated through the pre-need selling activities of sales counselors who are trained to respond sensitively to the needs of customers.

Loewen cemeteries offer families a variety of interment alternatives that include burial plots, mausoleums, niche walls and scattering gardens. The Company believes every life is worth celebrating and remembering. As a result, Loewen strives to accommodate the wishes of people who choose to be remembered in many different ways.

Katherine Hinds Smythe with son Clay at Memorial Park in Memphis, considered one of the continent's finest funeral home and cemetery combination properties *(See story on next page)*

Combinations Prove Popular With The Public

[illegible]

When Katherine Hinds Smythe decided in 1976 to build a funeral home on the 150-acre cemetery her grandfather established 40 years earlier, she and her family little realized how positive an impact it would have on the business of Memorial Park Inc. in Memphis, Tennessee.

"The public's positive response to having a funeral home on the cemetery grounds was overwhelming," says her son Clay, now president of the Memorial Park Group — a hub created when Memorial Park became part of The Loewen Group in 1997. Clay oversees the operations of four Loewen-owned properties in the Memphis area. "Business grew steadily to over 1,050 calls per year and we took over a third of our major competitor's market share."

With its beautiful landscaping and Arkansas field stone walls and building exteriors, Memorial Park, of which Katherine is now chairman, is widely regarded as one of America's premier "combinations" — offering full funeral home and cemetery services at one location, including flower shop and crematorium.

"People appreciate the convenience and efficiency of making all arrangements at one place — either pre-need or at-need" says Clay.

Some 250 miles west of Memphis, Loewen's newest combination opened for business in early March, 1998, — a 1,600 square foot funeral home constructed on the historic, 130-acre Spring Hill Cemetery in Nashville, Tennessee. The Spring Hill Funeral Home features four visitation rooms, a 200-seat chapel and centralized embalming for Loewen facilities in the Nashville area.

Loewen manager and funeral director Jeff Murphy plans to pattern the new combination on the success of Memorial Park. Initial public response has been very positive, says Jeff. "There is no doubt this full-service approach is the way of the future."

Celebration Of Life

A Unique Program that Provides Many Ways to Say "Goodbye"

[illegible]

Jan Donnelly believes her job is to work with families to discover just the right way to bring closure to a life well lived and a cherished presence now gone.

Jan is based in Vancouver, British Columbia, where a growing and transient population, plus dramatic shifts in the racial and ethnic mix, mean less focus on traditional values and a greater need for innovative marketing. British Columbia is the cremation capital of North America, with cremation the preferred choice of some 70 percent of people.

In this environment, the collateral materials and employee training associated with Loewen's *Celebration of Life* program are a valued resource.

"This program has at its heart the credo that every life is worthy of a celebration," says Jan.

"People are encouraged to think about ways to say 'goodbye' they are comfortable with and are appropriate for their loved one."

Celebration of Life options include memorial services at the funeral home or elsewhere (be it church, temple or mosque, home or the great outdoors), tribute videos or slide presentations, cremation or earth burial, a choice of caskets, containers and/or cremation urns and a broad selection of mementos.

Jan points to the wide choice people have today for memorialization.

"For cremations, many cemeteries now have indoor and outdoor niche walls or scattering grounds. We can also arrange for aerial or water scatterings.

"Because Loewen's *Celebration of Life* program provides such a full range of choices for families, I feel I've really done my job for them."

Regional Management

Questions & Answers

Loewen's field operations are led by six regional teams, each headed by a president or vice-president. These operating executives are seasoned professionals with an average of 25 years each in funeral and cemetery service.

Regional Management

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[illegible]
President,
[illegible]

[illegible]
President,
[illegible]

[illegible]
President,
[illegible]

[illegible]
President,
[illegible]

[illegible]
Vice President,
Western Canada

[illegible]
Vice President,
Eastern Canada

Each regional team is responsible for the day-to-day management and profitability of funeral homes and cemeteries within their territories and to make detailed reports to the Company's Executive Committee on a quarterly basis.

To provide insight into the Company's market issues and operating culture, the following questions were posed to the regional management team:

Question: How do you ensure that new acquisitions are integrated effectively and contribute to the bottom line as quickly as possible?

Answers: *Duane Schaefer*, "The challenge is to match the values and operating style of the independent operator with the more structured reporting associated with corporate ownership. We accomplish this crucial task by having the previous owner participate in all aspects of the transition, well before the sale actually happens. We do not want to turn former owners or their staff into accountants, but new employees need to understand and adopt our systems. We free new employees to concentrate right away on service, business development and other objectives by removing the hassles of accounting, legal services, insurance, employee benefits and other administrative tasks."

Harry Rath, "An essential part of a smooth and lasting integration of newly-acquired properties is the patience, care and respect shown to former owners and their staff. The post-acquisition period is a very sensitive time. With encouragement and the resources of the corporate office, employees of former owners flourish as they draw on their local knowledge and experience to come up with even better ideas and innovations."

George Amato, "By acquiring additional funeral homes and cemeteries in or near our existing markets we can improve service to our families and reduce costs. Cross-utilization of employees and equipment within a given "complete care market" enables us to deliver results at newly-acquired properties. By ensuring that former owners are introduced right away to Loewen's service-oriented culture, we find they become enthusiastic ambassadors for the Company. As a result of their influence and reputation, we also find new employees growing to assume even more responsibility not only at their own facility, but on a regional basis as well."

Duane Schaefer
South Central Region

18 years of industry experience, working in senior financial and administrative positions with two funeral and cemetery services companies. Joined The Loewen Group in 1990.

Harry Rath
Eastern Canada

12 years experience in funeral service, as a funeral director and later as general manager of a Toronto funeral home company. Joined The Loewen Group in 1987 and has held senior management positions in Ontario and Eastern Canada

Mike Stache
North Central Region

20 years experience in funeral and cemetery business, sales and marketing. Worked with Osiris Holdings Corporation in all aspects of funeral and cemetery service, including regional management. Joined The Loewen Group in 1995.

George Amato
North East Region

35 years of industry experience, including funeral homes, cemeteries, acquisitions, sales and administration. Operated his own business which included 29 funeral homes and six cemeteries prior to joining The Loewen Group in 1991.

Question: Post acquisition, how do you solidify market share in a given area?

Answers: *Mike Stache*, "We encourage innovation and empower people to implement change. We build market share by listening to and implementing ideas coming from customers and front-line employees. Our employees are our most valuable asset in solidifying market share."

Duane Schaefer, "The most important thing we do to solidify market share is encourage our professional staff to concentrate on the basics of customer service. If we satisfy families they will return when the need arises and make referrals in the interim. Pre-need selling further supports these simple, but basic, actions."

"We encourage innovation and empower people to implement change."

George Amato, "By including new staff in monthly meetings with their regional colleagues, we brainstorm how to provide better service and thereby expand market share. The experience and creativity of new employees is immediately brought to bear on local market opportunities. We find we can effectively merge our advertising and public relations on a regional basis. In one area, we introduced photographs of our regional cemeteries in the funeral homes, and vice versa, so the families we serve are made aware of our full array of services. This initiative has been a factor in increasing market share in that particular community and the model is being applied elsewhere."

Question: How do you monitor results on a location-by-location basis?

Answer: *Jeff Cashner*, "Specific objectives are set for each profit center in all six regions. Then, all parties agree to budgets and measurement criteria. With the tracking system in place, and further enhancements coming in 1998, we expect to be able to better and more frequently analyze each location's results. With this knowledge, we can constructively empower local management and hold them accountable for implementing plans and delivering results."

Question: How do you respond creatively and profitably to changing markets that are becoming ever more culturally diverse and experiencing changing consumer preferences, such as the growth in the number of cremations?

"Our goal is simple: accommodate and exceed families' expectations.'

***Answers**: Peter Wiesner,* "Many communities in my Western Canadian region experienced significant change in cultural mix during the last 10 years and British Columbia has North America's highest cremation rate at over 70 percent.

"We choose to see the cremation market and the traditions of different cultures as a positive challenge, as opposed to a threat. We serve our markets well. It's important to remember that our mission as funeral professionals is to 'help families say goodbye' in ways that are especially meaningful to them. Every life is worthy of celebration. What is meaningful for a family in one community or cultural tradition is not necessarily meaningful to a family of another background or from another part of the country. Our goal is simple: accommodate and exceed families' expectations.

"Each employee in our funeral homes, cemeteries and crematoria needs to be sensitive to the families they serve. Our job is to listen, be creative and inform families of the range of options available to create a personalized service. Just because you're having a cremation doesn't mean you don't want to commemorate that person's life. Our *Celebration of Life* program, for example, helps families design unique and personalized services."

Jeff Cashner, "My region, which includes Hawaii and California, is experiencing rapidly changing demographics. We monitor these developments carefully to ensure we are well-represented in the communities we seek to serve. We learn about cultural diversity primarily through research and community interaction and we train our staff accordingly."

Question: Speaking of training, how important is it to your long-term success?

***Answers**: Mike Stache,* "Training is integral to good customer service which in turn is vital to retaining and generating business. We are fortunate in that Loewen puts great emphasis on training. When we purchase a funeral home or cemetery, employees of the new unit get immediate on-the-spot training from teams based in Vancouver or Philadelphia. Training augments a new employee's invaluable sensitivity and local market insight with the latest in Loewen product knowledge and instruction in marketing and approaches to pre-need and after-need care giving."

Peter Wiesner
Western Canada

25 years experience in funeral and cemetery service, as a funeral director in a number of funeral homes in the Province of Saskatchewan. Joined The Loewen Group in 1987 and has held senior management positions in Saskatchewan and Western Canada.

Jeff Cashner
South Coast Region

29 years experience in funeral and cemetery service, working in the family business in Conroe, Texas, involved in administration, sales development, construction and funeral home and cemetery management. Joined The Loewen Group in 1992.

Internal Efficiencies Produce Results

Nearly half of Loewen's three to five-year earnings growth potential is related to implementing further internal efficiencies — possible in part due to growing economies of scale. By working smarter and taking greater advantage of enhanced purchasing power, employees are realizing cost-saving opportunities.

Synergy Begins at the Local Level

A bottom-up approach at the local business unit level is a great starting point for capturing internal efficiencies. The Company is capitalizing on the ever-increasing synergy found among its funeral homes and cemeteries that share specific local markets. Synergy potential is also an important criteria in the Company's corporate development strategy.

Insourcing or Outsourcing?

As a company grows, it is increasingly important to question dependence on outside suppliers when internal solutions may represent better value. Conversely, it is also important to examine the merits of continuing to perform certain tasks exclusively with internal resources.

For example, in 1997 Loewen transitioned from an in-house travel agency to a major outside corporate travel specialist. Today, all travel arrangements are fulfilled by the new supplier which identifies savings and manages administration of Loewen's corporate travel policies. This new arrangement is expected to yield annualized benefits of nearly $2 million.

Purchasing Power Harnessed

A host of centralized purchasing initiatives were implemented in 1997. Although highly proprietary, new contracts with various suppliers of funeral and cemetery products — from caskets and urns to cemetery monuments — are producing significant bulk purchasing discounts and millions of dollars in annual savings. Additionally, the Company completed an agreement for centralized purchasing and leasing of vehicles that is expected to produce $1.2 million in annualized savings.

Horizontal and Vertical Integration Under Development

Growth opens opportunities for consumers and shareholders as a result of introducing horizontal and vertical integration. Development of funeral homes/cemetery combinations is one of the best examples of horizontal integration in a local market. Loewen's market research suggests that certain families prefer dealing with one facility for all arrangements.

Loewen's insurance business is an example of vertical integration. Rather than relying on outside suppliers to issue all policies on behalf of the Company's advance-planned funeral customers, Loewen began taking steps in 1997 to increase its own insurance underwriting capabilities.

Costs and Staffing Levels Under Continuous Review

The reduction of general and administrative expenses as a percentage of sales at the corporate and local level is a central priority. The exciting opportunities of developing and implementing new ways to work smarter and save money is just beginning for the billion-dollar revenue company Loewen is today.

Software Upgrade Team

Over $2 million was saved by Vancouver Home Office information system analysts who completed a major upgrade of the Company's financial management reporting software — the kind of project many companies turn over to outside consultants. The year-and-a-half-long task saved considerable fees and solved several computer-related issues which would have arisen in the year 2000 Members of the team. (from left to right) Susan Vann, Dale Wong, Catherine Chan. Keith Nichol and Trudy Horne

Financial Review

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company operates the second-largest number of funeral homes and cemeteries in North America. In addition to providing services at the time of need, the Company also makes funeral, cemetery and cremation arrangements on a pre-need basis. As at March 6, 1998, the Company operated 1,091 funeral homes throughout North America. This included 945 funeral homes in the United States, 142 funeral homes in Canada and four funeral homes in Puerto Rico. In addition, as at such date, the Company operated 497 cemeteries in the United States, six cemeteries in Canada and seven cemeteries in Puerto Rico. During 1997, the Company expanded into the United Kingdom and as at March 6, 1998, operated 10 funeral homes there. As at March 6, 1998, the Company also operated five insurance subsidiaries which principally sell a variety of life insurance products, primarily to fund funeral services purchased through a pre-need arrangement.

The funeral service industry has a number of attractive business characteristics as described below. Historically the funeral service industry has had a low business failure risk compared with most other businesses and has not been significantly affected by economic or market cycles. According to the 1995 Business Failure Record published by The Dun & Bradstreet Corporation, the average business failure rate in the United States in 1995 was 82 per 10,000. The 1995 failure rate of the funeral service and crematoria industry was 13 per 10,000, among the lowest of all industries. In addition, future demographic trends are expected to contribute to the continued stability of the funeral service industry. The U.S. Department of Commerce, Bureau of the Census, projects that the number of deaths in the United States will grow at approximately 1.0% annually from 1990 through 2010. Finally, the funeral service industry in North America is highly fragmented, consisting primarily of small, stable, family-owned businesses. Management estimates that notwithstanding the increasing trend toward consolidation over the last few years, only approximately 13% of the 23,500 funeral homes and approximately 10% of the 10,500 cemeteries in North America are currently owned or operated by the five largest publicly traded North American funeral service companies.

The Company capitalizes on these favorable industry fundamentals through a growth strategy that emphasizes three principal components: (i) acquiring a significant number of small, family-owned funeral homes and cemeteries; (ii) acquiring "strategic" operations consisting predominantly of large, multi-location urban properties that generally serve as platforms for acquiring small, family-owned businesses in surrounding regions; and (iii) improving the revenue and profitability of newly acquired and established operations. As a result of the successful implementation of this strategy, the Company has grown significantly. Managing the Company's growth by successfully integrating newly acquired operations with existing facilities and optimizing economies of scale is critical to profitability, and will continue to be one of the most important responsibilities and challenges facing the Company.

Due to the successful implementation of its business strategy, the Company has grown from 489 locations at December 31, 1992 to 1,611 at March 6, 1998. However, the Company's dramatic growth resulted in increased regional infrastructure and field level staffing. During the third quarter of 1997, management reviewed the Company's operating performance for the first six months of 1997 and budgets for the balance of 1997, and determined that certain changes were necessary to improve the long-term financial performance of the Company. In particular, in an effort to reduce operating costs and reduce general and administrative expenses as a percentage of revenue, management performed a detailed review of the principal components of the Company's operational, administrative and capital structure.

The Company recorded pre-tax charges of $89.2 million ($58 million after tax) during 1997, representing $33.4 million of restructuring costs, $28.5 million of costs associated with strategic initiatives and $27.3 million of other charges, the impact of which is reflected in the discussion of results of operation. The majority of the anticipated future savings from the restructuring and strategic initiatives are associated with the Company's efforts to more fully integrate its field and administrative operations, including its funeral homes and cemetery locations, and are expected to favorably influence gross margins in the Company's funeral and cemetery divisions. These initiatives are also expected to produce long-term savings, as a percentage of revenue, in general and administrative expenses and interest costs.

RESULTS OF OPERATION

Detailed below are the Company's operating results for the years ended December 31, 1997, 1996 and 1995, expressed in dollar amounts as well as relevant percentages. The operating results are presented as a percentage of revenue except income taxes, which are presented as a percentage of net earnings (loss) before income taxes.

The Company's operations are comprised of three businesses: funeral homes, cemeteries and insurance. See Note 20 to the 1997 Consolidated Financial Statements.

	(IN MILLIONS)			(PERCENTAGES)		
YEAR ENDED DECEMBER 31	1997	1996	1995	1997	1996	1995
Revenue						
Funeral	$ 602.1	$ 549.8	$ 441.4	54.0	60.5	73.8
Cemetery	422.0	286.7	143.6	37.9	31.6	23.9
Insurance	90.0	71.9	13.5	8.1	7.9	2.3
Total	$ 1,114.1	$ 908.4	$ 598.5	100.0	100.0	100
Gross margin						
Funeral	$ 227.9	$ 223.0	$ 182.5	37.9	40.6	41.3
Cemetery	122.0	91.9	39.9	28.9	32.1	27.8
Insurance	16.7	17.2	3.0	18.5	23.9	22.3
Total	366.6	332.1	225.4	32.9	36.6	37.7
Expenses						
General and administrative	113.7	71.2	67.7	10.2	7.8	11.3
Depreciation and amortization	71.4	56.8	40.1	6.4	6.3	6.7
Restructuring costs	33.4	—	—	3.0	—	—
Earnings from operations	148.1	204.1	117.6	13.3	22.5	19.7
Interest on long-term debt	125.4	88.9	50.9	11.3	9.8	8.5
Loss on early extinguishment of debt	7.7	—	—	0.7	—	—
Gain on sale of investment	(24.1)	—	—	(2.2)	—	—
Finance costs related to hostile takeover proposal	—	3.2	—	—	0.4	—
Other costs related to hostile takeover proposal	—	15.5	—	—	1.7	—
Legal settlements and litigation related finance costs	—	—	184.9	—	—	30.9
Dividends on preferred securities of subsidiary	7.1	7.1	7.1	0.6	0.8	1.2
Income taxes	2.7	29.1	(47.2)	6.0	31.3	(38.1)
	29.3	60.3	(78.1)	2.6	6.6	(13.1)
Equity and other earnings of associated companies	13.4	3.6	1.4	1.2	0.4	0.3
Net earnings (loss)	$ 42.7	$ 63.9	$ (76.7)	3.8	7.0	(12.8)

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996 Consolidated revenue increased 22.6% to $1.1 billion in the year ended December 31, 1997 from $908.4 million in 1996. Consolidated gross margin increased 10.4% to $366.6 million in 1997 from $332.1 million in 1996. As a percentage of revenue, consolidated gross margin percentage decreased to 32.9% in 1997 from 36.6% in 1996, due to the increased proportion of cemetery revenue with associated lower margins, and declines in the gross margin percentages of the Company's funeral home, cemetery and insurance businesses. Charges relating to the implementation of certain strategic initiatives and other charges contributed to reduced margins in 1997 compared to 1996.

Funeral revenue increased 9.5% to $602.1 million in 1997 compared to $549.8 million in 1996, due to acquisitions. Funeral revenue for 1996 includes $4.4 million of commission income received by the Company due to certain non-recurring conversions of trust investments to insurance investments. Excluding the factors described below, 1997 funeral gross margin at locations in operation for all of 1996 and 1997 ("Established Locations") was in line with the prior year. The number of funeral services performed at Established Locations declined by 3.2% from 1996 to 1997, substantially consistent with other consolidators in the industry; however, the effect on revenue was partially offset by a slightly higher average revenue per funeral service of approximately 2.5%. As a result, casket and funeral service revenue for Established Locations declined by only 0.7% versus the prior year. Funeral gross margin as a percentage of funeral revenue for Established Locations decreased to 38.7% in 1997 from 40.8% in 1996, due to decreased revenue of $6.0 million from a lower number of services that was partially offset by higher average revenue per service, coupled with increased operating costs of $6.5 million. The increase in 1997 operating costs was primarily due to an addition to the reserve for doubtful accounts of approximately $5.0 million, and certain other charges aggregating approximately $0.6 million. Overall funeral gross margin as a percentage of funeral revenue decreased to 37.9% in 1997 from 40.6% in 1996, primarily as a result of the decrease in funeral gross margin at Established Locations, together with lower margins on acquired funeral locations. The Company expects funeral gross margin to be approximately 40% in 1998.

Cemetery revenue increased 47.2% to $422.0 million in 1997 compared to $286.7 million in 1996, due to acquisitions. Cemetery revenues in 1997 included a higher proportion of pre-need sales of openings and closings, as well as caskets, which have a higher gross margin than other components of cemetery revenues. Excluding the factors described below, cemetery gross margin for Established Locations was 31.7%, slightly below 1996, as increased revenues were offset by higher selling costs, primarily commissions associated with pre-need sales, and other operating costs, such as maintenance. Overall cemetery gross margin percentage decreased to 28.9% in 1997 from 32.1% in 1996. The decrease in overall cemetery gross margin percentage was principally a result of (i) lower cemetery revenue of $10.4 million attributable to imputed interest on non-interest bearing installment contract sales in 1997, (ii) $2.0 million in cemetery cost of sales representing the write off of certain costs related to the National Baptist Convention program initiated during 1995 and terminated in the third quarter of 1997, (iii) reversal in 1997 of $3.7 million of sales and $1.2 million of related cost of sales recorded in 1996 for transactions not consummated, and (iv) $2.1 million in cemetery cost of sales related to a write down of cemetery accounts receivable. The Company expects cemetery gross margin to be approximately 32% in 1998.

Insurance revenue increased to $90.0 million for 1997 from $71.9 million in 1996. Insurance gross margin in 1997 was 18.5% compared to 17.5% in 1996, after adjusting 1996 to exclude $4.6 million for a revision to actuarial assumptions.

In addition to its focus on at-need funeral and cemetery services, the Company provides advanced funeral and cemetery planning to the communities it serves. The Company's gross pre-arranged funeral sales increased to approximately $267 million in 1997 from approximately $190 million in 1996. Pre-arranged funeral services comprised approximately 21% of the funeral services performed by the Company in 1997 and approximately 19% of the funeral services performed by the Company in 1996. Although pre-need funeral sales increased in 1997, the Company does not expect pre-arranged funeral services as a percentage of funeral services performed by the Company to vary significantly in 1998 and 1999. The Company estimates that it had a backlog of approximately $967 million in pre-need funeral sales as of December 31, 1997. Approximately 77% of the Company's cemetery revenue in 1997 was generated from pre-need sales compared with 66% in 1996. Note 1 to the 1997 Consolidated Financial Statements provides information regarding the accounting treatment of pre-arranged funeral services and pre-need cemetery sales.

United States based operations contributed over 90% of consolidated revenue in 1997 and 1996.

General and administrative expenses for 1997 increased to $113.7 million from $71.2 million in 1996. Included in general and administrative expenses for 1997 are charges of (i) $9.4 million attributable to management's decision to negotiate the termination of covenant not to compete agreements with certain former owners in locales where the marketplace has changed and the restrictive covenants no longer have value to the Company, (ii) $6.0 million for litigation, (iii) $5.6 million for the write off of acquisition costs associated with acquisitions that management determined during the year to no longer pursue, (iv) $2.2 million of fixed asset write downs as a result of streamlining general and administrative functions, and (v) $1.6 million of software and other costs associated with a change in the Company's operating strategy. Also included in 1997 general and administrative expenses is the gain before taxes of $3.0 million on the sale of certain funeral home properties. Without reflecting the impact of these items, general and administrative expenses for 1997 increased $20.7 million over 1996 primarily due to the expansion of the company's infrastructure necessary to purchase, integrate and operate newly acquired locations and, as a percentage of revenue, was 8.3% as compared to 7.8% in 1996.

The Company recognized a restructuring charge of $33.4 million for the third quarter of 1997. The charge is principally composed of (i) $19.4 million related to the severance of 545 employees in operating locations where the Company was not achieving the full benefits of local staffing synergy, (ii) $6.0 million in fixed asset write downs as a result of management's decision to curtail or sell certain under-performing locations as part of the reorganization strategy, and (iii) $7.5 million for lease termination, severance of 47 employees and other expenses related to the closure of the Company's Covington, Kentucky corporate office.

Interest expense on long-term debt increased by $36.5 million in 1997 primarily as a result of additional borrowings by the Company to finance its expansion programs, as well as the increase in cemetery and funeral pre-need sales program activity.

In 1997, the Company refinanced a portion of its long-term debt to achieve a lower interest rate. As a result, the Company incurred a loss on early extinguishment of debt of $7.7 million related to the prepayment of a Cdn. $35 million term credit facility and the prepayment of three series of senior amortizing notes totaling approximately $100 million.

On November 17, 1997, the Company completed the sale of its shareholdings in Arbor Memorial Services Inc. for a gain of approximately $24.1 million, $13.9 million after tax.

The income tax expense of $2.7 million and an effective tax rate of 5.9%, compares to an income tax expense of $29.1 million for 1996 and an effective tax rate of 31.3%. The change in effective tax rate in 1997 compared to 1996 is explained in Note 17 to the 1997 Consolidated Financial Statements. The Company's effective tax rate is primarily determined through certain international and intercompany financing arrangements, as well as other tax strategies.

Equity and other earnings of associated companies increased to $13.4 million for 1997 from $3.6 million in 1996 due primarily to the inclusion for a full year of payment-in-kind dividends, partially offset by the Company's proportionate share of the full year loss attributable to the Common shares of Prime Succession Holdings, Inc. and Rose Hills Holding Corp., as described further in Note 4 to the 1997 Consolidated Financial Statements.

Net earnings decreased to $42.7 million in 1997 from $63.9 million in 1996. Fully diluted earnings per share ("EPS") decreased to $0.49 per share from $0.97 per share in 1996.

The Company's statement of changes in financial position for the year ended December 31, 1997 reflects cash applied to operations of approximately $173 million primarily as a result of increased cemetery and funeral pre-need sales programs.

Year Ended December 31, 1996 Compared to Year Ended December 31, 1995 Consolidated revenue increased 51.8% to $908.4 million in the year ended December 31, 1996 from $598.5 million in 1995. Consolidated gross margin increased 47.3% to $332.1 million in 1996 from $225.4 million in 1995. As a percentage of revenue, consolidated gross margin decreased to 36.6% in 1996 from 37.7% in 1995, principally due to the increased proportion of cemetery and insurance revenue with associated lower margins and the decrease in funeral gross margin as a percentage of funeral revenue.

Funeral revenue increased 24.6% to $549.8 million in 1996 compared to $441.4 million in 1995, primarily due to acquisitions. Funeral revenue for 1996 includes $4.4 million of commission income received by the Company due to certain non-recurring conversions of trust investments to insurance investments. The number of funeral services performed at locations in operation for all of 1995 and 1996 ("Established Locations") declined by 3.2% from 1995 to 1996; however, this was offset by a higher average revenue per funeral service. Funeral gross margin as a percentage of funeral revenue for Established Locations decreased slightly to 41.7% in 1996 from 42.1% in 1995, as the $2.5 million increase in revenue was more than offset by a $2.7 million increase in costs. As a result of such decrease, together with the lower margins of acquired funeral locations, overall funeral gross margin as a percentage of funeral revenue decreased to 40.6% in 1996 from 41.3% in 1995.

Cemetery revenue increased 99.7% to $286.7 million in 1996 compared to $143.6 million in 1995, primarily due to acquisitions. Cemetery gross margin increased to 32.1% in 1996 from 27.8% in 1995 principally as a result of a shift to increased sales of interment services for newly acquired as well as existing locations. Historically, many of the Company's cemeteries had focused their marketing activities on the sale of cemetery interment rights and related merchandise. During 1996, management implemented sales programs designed to encourage existing pre-need cemetery customers, who are already committed to Company owned cemeteries, as well as new customers, to purchase interment services on a pre-need basis. For Established Locations, cemetery gross margin increased to 32.2% in 1996 from 26.5% in 1995, primarily as a result of an increase in revenue of $15.2 million, with a $6.1 million increase in costs.

Insurance revenue increased to $71.9 million for 1996 from $13.5 million in 1995. The increase was due primarily to the integration of the March 1996 acquisition of certain net assets of S.I. for approximately $150 million (including related costs), which assets included two insurance companies. The increase in gross margin for insurance operations to 23.9% for 1996 from 22.3% in 1995 reflects primarily operating improvements associated with expansion of the insurance division.

In addition to its focus on at-need funeral and cemetery services, the Company provides advanced funeral and cemetery planning to the communities it serves. The Company's gross pre-arranged funeral sales increased to approximately $190 million in 1996 from approximately $97 million in 1995. Pre-arranged funeral services comprised approximately 19% of the funeral services performed by the Company in 1996 and approximately 16% of the funeral services performed by the Company in 1995. The Company estimates that it had a backlog of approximately $840 million in pre-need funeral sales as of December 31, 1996. Approximately 66% of the Company's cemetery revenue in 1996 was generated from pre-need sales compared with 61% in 1995. Note 1 to the 1997 Consolidated Financial Statements provides information regarding the accounting treatment of pre-arranged funeral services and pre-need cemetery sales.

United States based operations contributed over 90% of consolidated revenue in 1996 and 1995.

General and administrative expenses, as a percentage of revenue, decreased to 7.8% in 1996 from 11.3% in 1995. For the year ended December 31, 1996, general and administrative expenses increased 5.2% to $71.2 million from $67.7 million in 1995. Included in the general and administrative expense for 1995 were $10.8 million for professional fees and other costs related to the Gulf National and Provident litigations and settlements, and a $3.5 million write-off of acquisition costs. The increase in general and administrative expenses in 1996 is primarily a result of the expansion of the Company's infrastructure necessary to purchase, integrate and operate newly acquired locations, particularly in the cemetery division.

The $3.2 million of finance costs related to the hostile takeover proposal by SCI are comprised of $1.9 million paid to Company lenders for waiver fees and $1.3 million in additional interest costs relating to the October 1996 senior guaranteed note issue. The $15.5 million of other costs related to the hostile takeover proposal by SCI are comprised of $9.9 million of legal fees, $2.0 million of investment banking advisory fees and $3.6 million of fees to other advisors. No tax benefit relating to these other costs is reflected in the 1996 Consolidated Financial Statements.

Interest expense on long-term debt increased by $38.0 million in 1996 primarily as a result of additional borrowings by the Company to finance its acquisitions and higher borrowing costs due to lower credit ratings. As a percentage of revenue, depreciation and amortization decreased to 6.3% in 1996 from 6.7% in 1995, principally due to the increased proportion of cemetery acquisitions.

Income taxes were $29.1 million for 1996, resulting in an effective tax rate of 31.3% for the year, after giving effect to the other costs related to the hostile takeover proposal for which no tax benefit has been provided. In 1995, the Company recorded a deferred tax benefit of $60.3 million relating to the settlements of the Gulf National and Provident litigations. Prior to the tax recovery, 1995 income taxes were $13.2 million, resulting in an effective rate of 32.0%. The decrease in the effective annual tax rate is due to the expansion of the Company's international and intercompany financing arrangements, offset by the costs related to the hostile takeover proposal for which no tax benefit has been provided.

Net earnings increased to $63.9 million in 1996 from a net loss of $76.7 million in 1995. Fully diluted earnings per share increased to $0.97 per share from a loss of $1.69 per share in 1995. The net loss and loss in EPS for 1995 were primarily due to the impact of the Gulf National and Provident litigations and settlements.

The Company's statement of changes in financial position for the year ended December 31, 1996 reflects cash applied to operations of approximately $135 million, primarily as a result of legal settlements of $165 million recorded in 1995 but funded in the first quarter of 1996.

ACQUISITIONS, INVESTMENTS, CAPITAL EXPENDITURES AND DISPOSITIONS

The Company acquired 138 funeral homes, 171 cemeteries and one insurance company during 1997 for consideration of approximately $546 million. Of these acquisitions, 105 funeral homes, 171 cemeteries and one insurance company were located in the United States, 23 funeral homes were located in Canada, and 10 funeral homes were located in the United Kingdom. During 1996, the Company acquired 159 funeral homes, 136 cemeteries and two insurance companies for consideration of approximately $620 million. Included in the 1996 acquisitions is the March 1996 purchase of 15 funeral homes, two cemeteries and two insurance companies from S.I. for approximately $150 million (including related costs).

In connection with certain acquisitions the Company may issue Common shares as full or partial payment of the purchase price ("share-for-share acquisitions"). In August 1996, the Company registered with the Securities and Exchange Commission 5,000,000 Common shares for issuance in connection with prospective share-for-share acquisitions. As of March 6, 1998, 913,819 of such Common shares had been issued.

From time to time, the Company may dispose of non-core assets or businesses acquired in conjunction with the acquisition of funeral homes and cemeteries. In addition, the Company expects to continue to combine or sell a small number of locations in order to utilize its resources to produce a better return from its assets.

In June 1997, in order to comply with state law, the Company disposed of all of its eighteen funeral homes in the State of Wisconsin. The aggregate proceeds from the sale of these properties was $18.5 million, resulting in a gain before taxes of $3.0 million. The Company continues to own cemeteries in Wisconsin. However, in the future the Company will not purchase any funeral homes in that state until such time as the current law is changed.

On November 17, 1997, the Company completed the sale of its shareholdings in Arbor Memorial Services Inc. for a gain of approximately $24.1 million, $13.9 million after tax.

During the period from January 1, 1998 to March 6, 1998, the Company acquired 31 funeral homes and 26 cemeteries. The aggregate cost of these transactions was approximately $83 million. As of March 6, 1998, the Company had signed agreements, some of which are non-binding, for the acquisition of 47 additional funeral homes and 51 additional cemeteries aggregating approximately $198 million. The Company expects to close a majority of such acquisitions during 1998. In addition, in the ordinary course of its business, the Company continually is in the process of evaluating or negotiating prospective acquisitions in competition with other potential purchasers. From time to time, the Company may evaluate or negotiate potential acquisitions, which, if consummated, may be considered significant based on acquisition price.

Impact of the Year 2000 Issue The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. As a result, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or other disruption of operations and impede normal business activities.

During the past two years, the Company has determined that it will be necessary to modify or replace certain portions of its software so that its computer systems will function properly beyond December 31, 1999. The Company presently believes that with current and planned modifications to existing software and conversions to new software, the risk of potential loss associated with the Year 2000 Issue can be mitigated. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 Issue could have a material impact on the operations of the Company.

The Company has expensed approximately $200,000 to date to assess, evaluate and remediate known Year 2000 Issues. As a result, the most significant areas have been or are scheduled to be remedied by mid-1999. Additionally, the Company is establishing a task force to monitor remaining implementation plans and to determine whether all remaining areas have been assessed and evaluated, resources identified and remediation completed on a timely basis. At this time, the Company does not believe the remaining cost associated with the Year 2000 Issue to be material. Systems improvements and benefits beyond solution of the Year 2000 Issue are expected to be realized as a result of the above initiatives.

The Company has also initiated formal communications with its significant vendors to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Year 2000 Issue. The Company's total Year 2000 Issue project cost and estimates to complete exclude the estimated costs and time associated with the impact of a third party's Year 2000 Issue, which are not yet determinable. However, there can be no guarantee that the systems of other companies on which the Company's systems rely will be converted on a timely basis, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have material adverse effect on the Company.

The cost and the date on which the Company plans to complete the Year 2000 Issue modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

LIQUIDITY AND CAPITAL RESOURCES

The Company intends to fund its ongoing expansion programs through a combination of debt and equity offerings and borrowings under its credit facilities (described below). The Company plans to finance principal repayments on debt primarily through the issuance of additional debt or equity or borrowings under revolving credit facilities and plans to ensure financing is available well in advance of scheduled principal repayment dates, thereby protecting the Company's liquidity and maintaining its financial flexibility.

The Company's balance sheet at December 31, 1997, as compared to December 31, 1996, reflects changes principally from acquisitions during 1997, as described in Note 2 to the 1997 Consolidated Financial Statements, and the 1997 Financings (described below). In addition, during the past two years the Company has significantly expanded its cemetery and funeral pre-need sales programs. The rapid growth in cemetery pre-need sales and the related long-term receivables have contributed to the greater uses of cash than generated from operations. Cemetery pre-need sales are typically structured with low initial cash payments by the customers which do not offset the cash costs of establishing and supporting a growing pre-need sales program including the payment of certain sales commissions. For cemetery pre-need sales, the balance due is recorded as an installment contract receivable and the future liability for merchandise as an other liability and, accordingly, the increase in the level of pre-need cemetery sales has resulted in an increase in both current and long-term receivables and other liabilities.

The Company's objective is to maintain its long-term debt/equity ratio, on average, in a range of 1.0:1 to 1.5:1. Due to the timing of its ongoing acquisition program, the Company's long-term debt/equity ratio typically will rise to the high end of the range, and then will be reduced substantially by an equity issue. At December 31, 1997, the Company's long-term debt/equity ratio was 1.2:1.

1997 Financings In June 1997, Loewen completed a public offering in Canada, the United States and internationally of 13,800,000 Common shares (including 1,800,000 Common shares issued pursuant to the underwriters' over-allotment option) for aggregate gross proceeds of approximately $455 million (the "1997 Common Share Offering"). The net proceeds from the 1997 Common Share Offering of approximately $437 million were used for working capital and general corporate purposes, including acquisitions.

In September 1997, Loewen completed a public offering in Canada and a private placement in the United States of Cdn. $200 million of 6.10% Series 5 Senior Guaranteed Notes due 2002 (the "Series 5 Senior Notes"). The net proceeds from the Series 5 Senior Notes offering were used for working capital and general corporate purposes, including acquisitions. The Series 5 Senior Notes are guaranteed by LGII and secured in the manner described below under "Collateral Trust Agreement."

In September 1997, LGII expanded its $750 million revolving credit facility to $1 billion (the "Revolving Credit Facility"). The Revolving Credit Facility had two components, a $750 million tranche which matured in September 2002 and a $250 million 364-day tranche which matured in September 1998. In March 1998, the Company further amended the Revolving Credit Facility to provide greater flexibility for the timing of equity offerings and other financing alternatives. As part of the amendment, the 364-day tranche was terminated and the $750 million tranche was reduced to a $600 million revolving agreement which matures in March 2001. The Revolving Credit Facility bears interest at alternative market rates selected by LGII and is secured in the manner described below under "Collateral Trust Agreement." During 1998, the Company expects to obtain one or more additional financing facilities to replace a portion of the reduction in the Revolving Credit Facility.

In September 1997, LGII completed a private placement in the United States of $300 million in pass-through asset trust senior guaranteed notes, due 2009 ("the PATS Senior Notes"). The PATS Senior Notes bear interest at a rate of 6.70% until October 1, 1999, at which time the interest rate will be reset at a fixed annual rate of 6.05% plus an adjustment equal to LGII's then-current credit spread to the ten-year United States Treasury rate. The PATS Senior Notes are redeemable at the election of the holder, in whole but not in part, at 100% of the principal amount on October 1, 1999. The net proceeds from the PATS Senior Notes offering were used for working capital and general corporate purposes including acquisitions. The PATS Senior Notes are guaranteed by Loewen and secured in the manner described below under "Collateral Trust Agreement."

In September 1997, the Company repaid in advance of its final maturity, a Cdn. $35 million Canadian bank term credit agreement and in October 1997, repaid in full $100 million of Series A, B and C senior amortizing notes. In accordance with the terms of the bank term credit agreement and the notes, the Company incurred and expensed make-whole penalties aggregating $7.7 million in 1997.

Indebtedness In addition to the Revolving Credit Facility and the PATS Senior Notes described above, LGII has outstanding four series of senior guaranteed notes aggregating $700 million (the "Series 1-4 Senior Notes") issued in March and October of 1996. The Series 1-4 Senior Notes are guaranteed by Loewen and bear interest rates ranging from 7.50% to 8.25% and have initial terms of five to seven years. LGII also has outstanding one series of senior amortizing notes (the "Series E Amortizing Notes") in the amount of $50 million. The Series E Amortizing Notes are guaranteed by Loewen, bear an interest rate of 6.49% and have an initial term of ten years.

In addition to the Series 5 Senior Notes, Loewen also has outstanding one series of senior amortizing notes (the "Series D Amortizing Notes") in the amount of $51 million. The Series D Amortizing Notes are guaranteed by LGII and bear an interest rate of 9.62% and an initial term of ten years. Loewen also has a Cdn.$50 million revolving credit facility that matures in July 1999 (the "Canadian Revolving Credit Facility"). A subsidiary of Loewen has a $105 million secured term loan implemented in connection with the 1994 Management Equity Investment Plan that will terminate in July 2000 (the "MEIP Loan").

Collateral Trust Agreement In 1996, Loewen, LGII and their senior lenders entered into a collateral trust arrangement pursuant to which the senior lenders share certain collateral on a pari passu basis (the "Collateral Trust Agreement"). The collateral includes (i) a pledge for the benefit of the senior lenders of the shares of capital stock held by Loewen of substantially all of its subsidiaries and (ii) all of the financial assets of LGII (including the shares of the capital stock held by LGII of various subsidiaries) (collectively, the "Collateral"). The Collateral is held by a trustee for the equal and ratable benefit of the various holders of pari passu indebtedness. This senior lending group consists principally of the lenders under the Series 1-5 Senior Notes, the Series D and E Amortizing Notes, the Revolving Credit Facility, the Canadian Revolving Credit Facility, the MEIP Loan, and the PATS Senior Notes as well as the holders of certain letters of credit.

Restrictions Certain of the Company's debt instruments and credit facilities contain restrictions, including change of control provisions and provisions restricting payment of dividends on Common and preferred shares, restricting encumbrance of assets, limiting redemption or repurchase of shares, limiting disposition of assets, limiting the amount of additional debt, limiting the amount of capital expenditures and requiring the Company to maintain specified financial ratios. At December 31, 1997, none of the Company's retained earnings were restricted or unavailable for payment of dividends under the most restrictive agreement.

At December 31, 1997, the Company was in violation of certain debt covenants regarding interest rate coverage ratios. The Company has secured applicable waivers from the lenders to remedy such violations.

In connection with the issuance of the MIPS by LGC in August 1994, Loewen is guarantor of a Series A Junior Subordinated Debenture due August 31, 2024 issued by LGII (the "Series A Debenture"). Under the terms of the Series A Debenture, Loewen may not pay dividends on its Common shares if (i) there shall have occurred any event that, with the giving of notice or the lapse of time or both, would constitute an Event of Default (as defined in the Series A Debenture), (ii) Loewen is in default with respect to payment of any obligations under certain related guarantees or (iii) LGII shall have given notice of its election to select an Extension Period (as defined in the Series A Debenture), and such period, or any extension thereof, shall be continuing. For further information regarding the MIPS, see Note 7 to the 1997 Consolidated Financial Statements.

Payments of dividends and loans and advances by subsidiaries to Loewen or LGII are not restricted except that the Company's insurance subsidiaries are subject to certain state regulations which restrict distributions, loans and advances from such subsidiaries to the Company.

Share Repurchase Program In September 1997, the Company announced that it may, from time to time and until September 1998 subject to market and other conditions, repurchase up to approximately 3,600,000 of its Common Shares and up to 440,000 of its Series C Preferred Shares, through the facilities of the Toronto Stock Exchange, the Montreal Exchange and the New York Stock Exchange. As at March 6, 1998, no share repurchases had been made.

Interest Rate Risk Management The Company enters into derivative transactions with financial institutions primarily as hedges of other financial transactions. The Company's policies do not allow leveraged transactions and are designed to minimize credit and concentration risk with counter-parties. The Company's practice is to use swaps and options to manage its exposure to interest rate movements. The Company's strategy is to maintain an average of between 60% and 80% of its debt subject to fixed interest rates, although at any point in time during a period the percentage of debt subject to fixed interest rates may be higher or lower. The Company also uses futures and options to fix the interest rate of anticipated financing transactions in advance. All derivatives are entered into as hedges based on several criteria, including the timing, size and term of the anticipated transaction. Any gain or loss from an effective hedging transaction is deferred and amortized over the life of the financing transaction as an adjustment to interest expense.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The management of The Loewen Group Inc. is responsible for the preparation of the accompanying consolidated financial statements and the preparation and presentation of all information in the Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial records are properly maintained to provide accurate and reliable financial statements.

The Company's audit committee is composed entirely of non-management directors and is appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review financial reporting matters and internal controls and to review the consolidated financial statements and the independent auditors' report. The audit committee reported its findings to the Board of Directors who have approved the consolidated financial statements.

The Company's independent auditors, KPMG, have examined the consolidated financial statements and their report follows.

Raymond L. Loewen
Chairman and Chief Executive Officer

Michael G. Weedon
Executive Vice-President and Chief Administrative Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of The Loewen Group Inc. as at December 31, 1997 and 1996 and the consolidated statements of operations, retained earnings and changes in financial position for each of the years in the three year period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1997, in accordance with generally accepted accounting principles in Canada. As required by the Company Act of the Province of British Columbia, we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG

Chartered Accountants
Vancouver, Canada

February 27, 1998 except as to Note 22, which is as of March 27, 1998

CONSOLIDATED BALANCE SHEETS

Expressed in thousands of U.S. dollars

	December 31 1997	December 31 1996
Assets		
Current assets		
Cash and term deposits	$ **36,767**	$ 18,059
Receivables, net of allowances	**251,006**	187,617
Inventories	**34,885**	32,008
Prepaid expenses	**11,141**	11,545
	333,799	249,229
Prearranged funeral services	**410,379**	334,420
Long-term receivables, net of allowances	**553,663**	288,579
Investments	**224,008**	266,228
Insurance invested assets	**305,610**	296,249
Cemetery property, at cost	**957,831**	615,192
Property and equipment	**797,178**	686,285
Names and reputations	**633,143**	558,710
Deferred income taxes	**130,913**	67,904
Other assets	**156,636**	134,143
	$ **4,503,160**	$ 3,496,939
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ **160,208**	$ 114,072
Long-term debt, current portion	**43,507**	79,580
	203,715	193,652
Long-term debt	**1,750,427**	1,416,345
Other liabilities	**308,909**	216,842
Insurance policy liabilities	**214,492**	212,480
Deferred prearranged funeral services revenue	**410,379**	334,420
Preferred securities of subsidiary	**75,000**	75,000
Shareholders' equity		
Common shares	**1,271,177**	796,431
Preferred shares	**157,146**	157,146
Retained earnings	**98,354**	80,117
Foreign exchange adjustment	**13,561**	14,506
	1,540,238	1,048,200
	$ **4,503,160**	$ 3,496,939

cbrcom = 1973.25

in C$ = 2197.45 M

Commitments and contingencies (Notes 4, 6, 11, 14 and 22)

See accompanying notes to consolidated financial statements

On behalf of the Board

Director *Director*

CONSOLIDATED STATEMENTS OF OPERATIONS

Expressed in thousands of U.S. dollars except per share amounts

	Years ended December 31		
	1997	1996	1995
Revenue			
Funeral	$ 602,112	$ 549,833	$ 441,352
Cemetery	422,010	286,652	143,577
Insurance	89,977	71,900	13,564
	1,114,099	908,385	598,493
Costs and expenses			
Funeral	374,191	326,892	258,872
Cemetery	300,031	194,725	103,726
Insurance	73,304	54,709	10,533
	747,526	576,326	373,131
	366,573	332,059	225,362
Expenses			
General and administrative	113,707	71,191	67,652
Depreciation and amortization	71,383	56,763	40,103
Restructuring costs	33,364	—	—
	218,454	127,954	107,755
Earnings from operations	148,119	204,105	117,607
Interest on long-term debt	125,450	88,932	50,913
Loss on early extinguishment of debt	7,675	—	—
Gain on sale of investment	(24,099)	—	—
Finance costs related to hostile takeover proposal	—	3,230	—
Other costs related to hostile takeover proposal	—	15,448	—
Litigation related finance costs	—	—	19,914
Legal settlements	—	—	165,000
Earnings (loss) before undernoted items	39,093	96,495	(118,220)
Dividends on preferred securities of subsidiary	7,088	7,088	7,088
Earnings (loss) before income taxes and undernoted items	32,005	89,407	(125,308)
Income taxes			
Current	34,152	22,544	29,379
Deferred	(31,495)	6,551	(76,557)
	2,657	29,095	(47,178)
	29,348	60,312	(78,130)
Equity and other earnings of associated companies	13,380	3,594	1,446
Net earnings (loss) for the year	$ 42,728	$ 63,906	$ (76,684)
Basic earnings (loss) per Common share	$ 0.49	$ 0.97	$ (1.69)
Fully diluted earnings (loss) per Common share	$ 0.49	$ 0.97	$ (1.69)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Expressed in thousands of U.S. dollars except per share amounts

	Years ended December 31		
	1997	1996	1995
Retained earnings, beginning of year	$ **80,117**	$ 36,439	$ 115,492
Net earnings (loss)	**42,728**	63,906	(76,684)
Common share dividends	**(14,958)**	(11,354)	(2,369)
Preferred share dividends	**(9,533)**	(8,874)	—
Retained earnings, end of year	$ **98,354**	$ 80,117	$ 36,439
Dividend per Common share	$ **0.200**	$ 0.200	$ 0.050
Dividend per Preferred share	$ **1.083**	$ 1.008	$ —

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Expressed in thousands of U.S. dollars

	Years ended December 31		
	1997	1996	1995
Cash provided by (applied to)			
Operations			
Net earnings (loss)	$ **42,728**	$ 63,906	$ (76,684)
Items not affecting cash			
Depreciation and amortization	**71,383**	56,763	40,103
Gain on sale of investments	**(27,208)**	—	—
Deferred income taxes	**(31,495)**	6,551	(76,557)
Equity and other earnings of associated companies	**(13,380)**	(3,594)	(1,446)
Restructuring costs	**15,645**	—	—
Common shares and debt issued for legal settlements	**—**	(112,000)	112,000
Other, including net changes in other non-cash balances	**(231,112)**	(147,398)	12,872
	(173,439)	(135,772)	10,288
Investing			
Business acquisitions	**(546,498)**	(619,632)	(487,948)
Construction of new facilities	**(32,429)**	(17,719)	(14,695)
Investments, net	**14,523**	(171,398)	(15,719)
Purchase of insurance invested assets	**(261,987)**	(106,335)	—
Proceeds on disposition and maturities of insurance invested assets	**252,626**	71,939	—
Purchase of property and equipment	**(52,830)**	(54,911)	(21,369)
Proceeds on disposition of investments and assets	**85,812**	24,067	3,490
Other	**(14,270)**	2,335	(32,932)
	(555,053)	(871,654)	(569,173)
Financing			
Issue of Common shares, before income tax recovery	**462,430**	300,583	203,056
Issue of Preferred shares, before income tax recovery	**—**	154,094	—
Increase in long-term debt	**1,385,425**	1,128,449	396,461
Reduction in long-term debt	**(1,082,970)**	(514,510)	(53,793)
Common share dividends	**(14,958)**	(11,354)	(2,369)
Preferred share dividends	**(9,533)**	(8,874)	—
Current note payable	**—**	(38,546)	38,546
Other	**6,768**	(23,741)	4,238
	747,162	986,101	586,139
Increase (decrease) in cash and cash equivalents during the year	**18,670**	(21,325)	27,254
Effect of foreign exchange adjustment	**38**	(70)	551
Cash and cash equivalents, beginning of year	**18,059**	39,454	11,649
Cash and cash equivalents, end of year	$ **36,767**	$ 18,059	$ 39,454

Cash and cash equivalents include cash and term deposits.

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tabular amounts expressed in thousands of U.S. dollars except per share amounts and number of shares

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of The Loewen Group Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in Canada, which in the case of the Company, generally conform with those established in the United States, except as explained in Note 23.

The United States dollar is the principal currency of the Company's business and accordingly the consolidated financial statements are expressed in United States dollars.

Basis of consolidation The accounts of all subsidiary companies have been included in the consolidated financial statements from their respective dates of acquisition of control or formation. All subsidiaries are wholly owned at December 31, 1997 except for a few companies with small minority interests. The Company's operating subsidiaries in the United States are held through Loewen Group International, Inc. ("LGII").

The Company accounts for its common share investment in companies in which it has significant influence by the equity method. The Company's proportionate share of income (loss) as reported, net of amortization of excess purchase price over net assets acquired, is included in income and added to (deducted from) the cost of the investment. Common share dividends received reduce the carrying amount of the investment.

Other long-term investments including preferred share investments are accounted for using the cost method.

The Company accounts for its investment in joint ventures using the proportionate consolidation method.

All significant inter-company balances and transactions have been eliminated in the consolidated financial statements.

Use of estimates The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. As a result, actual results could differ from those estimates.

Prearranged funeral services Prearranged funeral services provide for future funeral services generally determined by prices prevailing at the time the contract is signed. The payments made under the contract are either placed in trust or are used to pay the premiums of life insurance policies under which the Company will be designated as beneficiary. Except for insurance commissions and amounts not required to be trusted which are used to defray initial costs of administration, no income is recognized until the performance of a specific funeral.

Trust fund principal amounts and insurance contract amounts, together with trust fund investment earnings retained in trust and annual insurance benefits, are deferred until the service is performed. The Company estimates that trust fund investment earnings and annual insurance benefits exceed the increase in cost over time of providing the related services. Upon performance of the specific funeral service, the Company will recognize the trust fund principal amount or insurance contract amount

together with the accumulated trust earnings and annual insurance benefits as funeral revenues. Direct obtaining costs related to the sale of prearranged funeral services are included in other assets and amortized over a period of ten years, approximating the period the benefits are expected to be realized. Indirect obtaining costs relating to the sale of prearranged funeral services are expensed in the period incurred.

Cemetery operations Pre-need sales of cemetery interment rights and other related products and services are recorded as revenue when non-cancellable customer contracts are signed with concurrent recognition of related costs. Allowances for cancellations arising from non-payment are provided at the date of sale based on management's estimates of expected cancellations. Actual cancellation rates in the future may result in a change in estimate.

A portion of the proceeds from cemetery sales is generally required by law to be paid into perpetual or endowment care trust funds. Cemetery revenue is recorded net of the amount to be deposited to perpetual or endowment care trust funds. Earnings of perpetual or endowment care trust funds are used to defray the maintenance costs of cemeteries. Additionally, pursuant to state law, a portion of the proceeds from the sale of preneed merchandise and services may also be required to be paid into trust funds which are recorded as long-term receivables.

Insurance Operations

(a) Insurance revenue The Company earns insurance revenue primarily through the sale of industrial life and ordinary life insurance policies.

(b) Insurance invested assets Bonds and other fixed-term securities are carried at amortized cost. Net realized gains and losses on the disposal of bonds and other fixed-term securities are deferred and amortized to income over the remaining term to maturity of the security sold. Equity securities are carried at moving average market value. Net realized gains and losses on the disposal of equity securities are deferred and amortized to income on a declining balance basis.

(c) Insurance policy liabilities Insurance policy liabilities represent an estimate of the amount which, together with future premiums and investment income, will be sufficient to pay future benefits, dividends and expenses on insurance and annuity contracts. Liabilities are computed using the policy premium method which involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of surrender. Consequently, policy liabilities include reasonable provisions for adverse deviations from those estimates. These assumptions will be revised if it is determined that future experience differs substantially from that previously assumed.

Inventories Inventories are valued at the lower of cost, determined primarily on a specific identification basis or a first in first out basis, and net realizable value.

Cemetery property Cemetery property, including capitalized interest, consists of developed and undeveloped cemetery property and is valued at average cost, which is not in excess of market value. Amounts are expensed to costs and expenses as sales of cemetery plots occur.

Property and equipment Property and equipment is recorded initially at cost and depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	10 to 40 years
Automobiles	6 years
Furniture, fixtures and equipment	6 to 10 years
Computer hardware and software	6 to 10 years
Leasehold improvements	over the term of the lease plus one renewal

Names and reputations The amount paid for the names and reputations of operations acquired is equivalent to the excess of the purchase price over the fair value of identifiable net assets acquired, as determined by management. Amortization is provided on a straight-line basis over 40 years.

Covenants not to compete included with names and reputations on the consolidated balance sheet represent amounts capitalized for non-competition agreements with certain key management personnel of acquired operations. Amortization of such prepaid covenants not to compete is provided on a straight-line basis over the terms of the relevant agreements, typically ten years.

Impairment of Long-Lived Assets The Company monitors the recoverability of long-lived assets, including investments, cemetery properties, property and equipment, names and reputations and other assets, based on estimates using factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable.

Deferred finance costs Deferred finance costs included in other assets on the consolidated balance sheet represent the costs of negotiating and securing the Company's long-term debt and preferred securities of subsidiary and are being amortized to earnings on a straight-line basis over the respective term of the related debt. These costs include legal fees, accounting fees, underwriting and agency fees and other related costs.

Acquisition costs The Company's policy is to capitalize direct acquisition costs incurred on potential acquisitions. Upon completion of an acquisition, these costs are allocated to the assets acquired and are subject to the accounting policies outlined above. On certain acquisitions, a portion of the consideration is contingent upon future operating results. Such consideration, if any, is allocated to the assets acquired once determinable. Direct acquisition costs related to acquisitions not completed are written off.

Derivative instruments The Company enters into derivative transactions with financial institutions primarily as hedges of other financial transactions. The Company's policies do not allow leveraged transactions and are designed to minimize credit and concentration risk with counterparties.

The Company enters into interest rate swap agreements to manage interest rate exposure on its long-term debt. The difference between the amounts paid and received is accrued and accounted for as an adjustment to interest expense over the life of the swap agreement.

The Company uses basic swap and option products to manage its exposure to interest rate movements when anticipated financing transactions are probable and the significant characteristics and expected terms are identified. Any gain or loss as a result of the hedging is deferred and amortized as an adjustment to interest expense over the life of the financing instrument hedged. If at any point in time a hedging transaction no longer meets the criteria of a hedge, any gain or loss is recognized in current earnings.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Company also uses foreign exchange forward contracts, options and futures to hedge the Company's exposure to fluctuations in foreign exchange rates. Gains or losses as a result of the hedge transaction are accounted for as an adjustment to the related transaction.

Share issue expenses The costs of issuing shares, net of income tax recoveries thereon, are applied to reduce the stated value of such shares.

Deferred income taxes The Company follows the allocation method for accounting for income taxes. Under this method recognition is given in the financial statements to the tax effects of timing differences between income for financial statement and income tax purposes. The differences arise primarily from interest, provisions for legal settlements and related costs, intercompany charges, depreciation, amortization, deferred finance costs, direct marketing costs, provision for bad debts and contract cancellations, operating loss carry-forwards, cemetery sales and share issue costs.

Earnings per share Basic earnings (loss) per share figures are calculated based on net earnings (loss) attributable to Common shareholders using the weighted average number of Common shares outstanding during the respective periods.

Fully diluted earnings (loss) per share figures assume, if dilutive (a) exercise of employee and other stock options effective on their dates of issue and that the funds derived therefrom were invested at annual after-tax rates of return of 6.9% (1996 — 6.5%, 1995 — 6.2%), (b) conversion of the Series C Preferred shares effective on the date of the issue of the Series C Receipts and the add-back of the dividends during the period and (c) exercise of options and purchase rights under the 1994 Management Equity Investment Plan ("MEIP") effective on their dates of issue and the add-back of the interest under the related MEIP loan. See Note 9(d).

Foreign currency translation The assets and liabilities of the Canadian operations, which are accounted for as self-sustaining, have been translated into United States dollars at the rates of exchange as at the balance sheet dates, and revenue and expenses are translated at the average rates of exchange for the periods of operation. Gains or losses arising from the translation are deferred and are classified as "Foreign exchange adjustment" within Shareholders' equity.

NOTE 2. ACQUISITIONS

During the year ended December 31, 1997, the Company acquired 105 funeral homes, 171 cemeteries and one insurance company in the United States, 23 funeral homes in Canada and 10 funeral homes in the United Kingdom.

During the year ended December 31, 1996, the Company acquired 149 funeral homes, 135 cemeteries and two insurance companies in the United States and ten funeral homes and one cemetery in Canada. Included in these acquisitions is the purchase of certain net assets of S.I. Acquisition Associates L.P. ("S.I.") of Donaldsville, Louisiana, for approximately $155,800,000, including costs of acquisition. S.I. concurrently acquired all of the outstanding shares of Ourso Investment Corporation. The S.I. assets included 15 funeral homes, two cemeteries and two insurance companies.

All of the Company's acquisitions have been accounted for by the purchase method. The preliminary purchase price allocation for certain of these acquisitions has been estimated based on available information at the time and is subject to revision. The effect of acquisitions at dates of purchase on the Consolidated Balance Sheet is shown below. Included in the 1996 amounts is $11,794,000 representing the present value of total contingent payments of approximately $13,500,000 which the

Company recorded in the third quarter of 1996 when the outcome of the contingency related to a 1995 acquisition became determinable.

	1997	1996
Current assets	$ 10,138	$ 13,624
Prearranged funeral services	37,271	49,098
Long-term receivables, net of allowances	85,098	90,882
Investments	36	1,837
Insurance invested assets	—	185,971
Cemetery property, at cost	305,038	255,239
Property and equipment	87,587	111,610
Names and reputations	104,918	154,297
Other assets	264	251
	630,350	862,809
Current liabilities	(6,680)	(19,364)
Long-term debt	(4,948)	(2,068)
Other liabilities	(55,845)	(53,995)
Insurance policy liabilities	—	(125,250)
Deferred income taxes	20,892	6,598
Deferred prearranged funeral services revenue	(37,271)	(49,098)
	$ 546,498	$ 619,632
Consideration		
Cash, including assumed debt repaid at closing	$ 481,617	$ 556,921
Debt	41,880	51,060
Common shares	23,001	11,651
Purchase Price	$ 546,498	$ 619,632

The following table reflects, on an unaudited pro-forma basis, the combined results of the Company's operations acquired during the year ended December 31, 1997 as if all such acquisitions had taken place at the beginning of the respective years presented. Appropriate adjustments have been made to reflect the accounting basis used in recording these acquisitions. This pro-forma information does not purport to be indicative of the results of operations that would have resulted had the acquisitions been in effect for the entire years presented, and is not intended to be a projection of future results or trends.

	1997	1996
Revenues	$ 1,172,274	$ 1,033,218
Net earnings	$ 42,777	$ 64,410
Basic earnings per share	$ 0.49	$ 0.97
Fully diluted earnings per share	$ 0.49	$ 0.97

NOTE 3. PREARRANGED FUNERAL SERVICES

Included in the consolidated balance sheet at December 31, 1997, as prearranged funeral services is $410,379,000 (1996 — $334,420,000), representing amounts deposited in accordance with state trusting laws with various financial institutions together with accrued earnings. The Company will receive the prearranged funeral trust amounts when the funeral services are performed.

Amounts held in prearranged funeral trusts

	1997	1996
Short-term investments	$ **145,365**	$ 98,615
Fixed maturities	**92,555**	116,177
Balanced mutual funds	**123,080**	58,648
Equity securities	**14,970**	10,870
Insurance policies held by trust	**32,552**	45,228
Other	**1,857**	4,882
	$ **410,379**	$ 334,420

The weighted average rate of return on the above prearranged funeral trust assets for the year ended December 31, 1997 was 3.8% (1996 — 5.2%, 1995 — 5.1%).

NOTE 4. INVESTMENTS

	1997	1996
Prime Succession Holdings, Inc. ("Prime")		
213.2353 Common shares (1996 — 213.2353) representing 21.8%	$ **11,274**	$ 12,780
7,170 Preferred Shares (1996 — 6,350) representing 100%	**71,698**	63,500
Rose Hills Holdings Corp. ("RH Holdings")		
204.5454 Common shares (1996 — 204.5454) representing 20.45%	**4,377**	6,525
9,461 Preferred shares (1996 — 8,600) representing 100%	**94,610**	86,000
Arbor Memorial Services, Inc. ("Arbor")	**—**	39,517
Investments of joint venture	**40,113**	37,187
Other	**1,936**	20,719
	$ **224,008**	$ 266,228

(a) Prime On August 26, 1996, the Company acquired 235.2941 shares of Prime common stock for $16,000,000, representing 23.5% of Prime's voting common stock, and 100% of Prime's non-voting preferred stock, with a 10% cumulative annual payment-in-kind dividend, for $62,000,000. Blackstone Capital Partners II Merchant Banking Fund L.P. and certain affiliates (together, "Blackstone") acquired 764.7059 shares of Prime common stock, representing 76.5% of Prime's voting common stock for $52,000,000. On February 14, 1997, the Company and Blackstone agreed to adjust their respective ownership of Prime's voting common stock retroactively to August 26, 1996. No adjustment to the aggregate purchase price was made. After giving effect to the readjustment, the Company has paid $14,500,000 for 213.2353 shares of Prime common stock and Blackstone has paid $52,000,000 for 764.7059 shares of Prime common stock representing 21.8% and 78.2%, respectively, of Prime's voting common stock.

Prime holds all of the outstanding common shares of Prime Succession, Inc., an operator of funeral homes and cemeteries in the United States. Prime Succession, Inc. was purchased on August 26, 1996 for approximately $320,000,000 of which $130,000,000 was funded by Blackstone and the Company, and $190,000,000 was financed through bank borrowings and the issuance of senior subordinated notes. The excess of the purchase price over the fair value of net assets of approximately $230,000,000, was established as goodwill in Prime Succession, Inc. and is being amortized over 40 years.

Blackstone and the Company have the right to designate five and three nominees, respectively, to the Prime Board of Directors. Blackstone controls the strategic operating, investing and financing policies of Prime. Neither Blackstone nor the Company can, without the consent of the other party, sell or transfer its share in Prime to a party other than to an affiliate of itself.

The Company accounts for its investment in Prime preferred stock by the cost method. For the year ended December 31, 1997, income of $6,542,000 (August 26, 1996 to December 31, 1996 income of $2,300,000) was recorded representing the cumulative annual payment-in-kind dividend.

The Company accounts for its investment in Prime common stock by the equity method. Under this method, the Company records its proportionate share of the net earnings (loss) of Prime after deducting the payment-in-kind dividend. For the year ended December 31, 1997, a loss of $1,469,000 (August 26, 1996 to December 31, 1996 loss of $1,144,000) was recorded representing the Company's proportionate share of the loss attributable to the Prime common stock.

Under a Put/Call Agreement entered into with Blackstone, the Company has the option to acquire ("Call") Blackstone's Prime common stock commencing on the fourth anniversary of the acquisition, and for a period of two years thereafter, at a price determined pursuant to the Put/Call Agreement. Blackstone has the option to sell ("Put") its Prime common stock to the Company commencing on the sixth anniversary of the acquisition, and for a period of two years thereafter, at a price determined pursuant to the Put/Call Agreement.

The prices for the Call and the Put are based on a formula that calculates the equity value attributable to Blackstone's common share interest. The calculated equity value is determined at the Put or Call date based on a multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"), after deduction of certain liabilities. The multiple to be applied to EBITDA is also determined through a formula which is based on future EBITDA. Any payment to Blackstone under the Call or the Put may be in the form of cash or Common shares of the Company, at the Company's option.

Upon a Call, Blackstone will receive, at a minimum, its original investment plus a 24.1% compound return per annum thereon regardless of the calculated equity value. Any additional equity value attributable to Blackstone common stock interest is determined on the basis of a formula set forth in the Put/Call Agreement.

Upon a Put by Blackstone, there is no guaranteed return to Blackstone. Any payment to Blackstone is limited to Blackstone's share of the calculated equity value based on a formula set forth in the Put/Call Agreement.

Any payment to Blackstone is subject to Blackstone or the Company exercising their respective rights under the Put or the Call. It is not currently possible to determine whether Blackstone or the Company will exercise such rights. Furthermore, any amount to be paid pursuant to the Put or Call is dependent on calculated equity value which is based on EBITDA of future periods. Accordingly, it is not possible at this date to estimate the future amount that may be payable to Blackstone on the exercise of the Put or the Call.

The Company provides various administrative services to Prime under an Administrative Services Agreement for an annual fee of $250,000.

NOTE 4. INVESTMENTS *(continued)*

Summarized financial data for Prime for the year ended December 31, 1997 and the period August 26, 1996 to December 31, 1996 are presented as follows:

	1997	1996
Income statement information:		
Revenue	$ 101,139	$ 32,651
Gross margin	38,616	11,066
Earnings from operations	24,123	5,492
Payment-in-kind dividend	6,542	2,300
Net loss attributable to common shareholders	(6,739)	(5,250)
Balance sheet information:		
Current assets	$ 25,694	$ 24,614
Non-current assets	369,412	374,174
Total assets	395,106	398,788
Current liabilities	14,964	22,531
Non-current liabilities	253,734	249,652
Total liabilities	268,698	272,183
Shareholders' equity	126,408	126,605

(b) RH Holdings On November 19, 1996, the Company acquired 204.5454 shares of RH Holdings common stock for $9,000,000, representing 20.45% of RH Holdings' voting common stock, and 100% of RH Holdings' non-voting preferred stock, with a cumulative annual payment-in-kind dividend of 10%, for $86,000,000. The Company's total investment of $95,000,000 consisted of $72,000,000 in cash and a contribution by the Company of 14 funeral homes and two combination funeral home and cemetery properties located in California valued at $23,000,000. Blackstone acquired 795.4546 shares of RH Holdings common stock, representing 79.55% of RH Holdings' voting common stock for $35,000,000.

RH Holdings holds all of the outstanding common stock of Rose Hills Company ("RHC") and the cemetery related assets of Rose Hills Memorial Park Association, representing the largest single location cemetery in the United States. These companies were purchased on November 19, 1996 for approximately $285,000,000 of which $130,000,000 was funded by Blackstone and the Company, and $155,000,000 was financed through bank borrowings and the issuance of senior subordinated notes. The excess of the purchase price over the fair value of net assets of approximately $130,000,000 was established as goodwill in RH Holdings and is being amortized over 40 years.

Blackstone and the Company have the right to designate five and three nominees, respectively, to the RH Holdings' Board of Directors. Blackstone controls the strategic operating, investing and financing policies of RH Holdings. Neither Blackstone nor the Company can, without the consent of the other party, sell or transfer its shares in RH Holdings to a party other than to an affiliate of itself.

The Company accounts for its investment in RH Holdings preferred stock by the cost method. For the year ended December 31, 1997, income of $8,708,000 (November 19, 1996 to December 31, 1996 income of $932,000) was recorded representing the cumulative annual payment-in-kind dividend.

The Company accounts for its investment in RH Holdings common stock by the equity method. Under the equity method, the Company records its proportionate share of the net earnings (loss) of RH Holdings after deducting the payment-in-kind dividend. For the year ended December 31, 1997, a loss of $2,142,000 (November 19, 1996 to December 31, 1996 loss of $468,000) was recorded representing the Company's proportionate share of the loss attributable to the common stock of RH Holdings. The properties contributed by the Company had a net carrying value of $20,382,000. The Company has deferred a gain of $2,618,000 on the disposition of these properties and will recognize the gain if and when the properties are sold. The deferred gain is recorded in other liabilities on the consolidated balance sheet.

Under a Put/Call Agreement entered into with Blackstone, the Company has the option to acquire ("Call") Blackstone's RH Holdings common stock commencing on the fourth anniversary of the acquisition, and for a period of two years thereafter, at a price to be determined pursuant to the Put/Call Agreement. Blackstone has the option to sell ("Put") its RH Holdings common stock to the Company commencing on the sixth anniversary of the acquisition, and for a period of two years thereafter, at a price determined pursuant to the Put/Call Agreement.

The prices for the Call and Put are based on a formula that calculates the equity value attributable to Blackstone's common share interest. The calculated equity value will be determined at the Put or Call date based on a multiple of EBITDA, after deduction of certain liabilities. The multiple to be applied to EBITDA will also be determined through a formula which is based on future EBITDA. Any payment to Blackstone under the Call or the Put may be in the form of cash or the stock of the Company, subject to certain conditions, at the Company's option.

Upon a Call, Blackstone will receive, at a minimum, its original investment plus a 22.5% compound return per annum thereon regardless of the calculated equity value. Any additional equity attributable to Blackstone common stock interest will be determined on the basis of a formula set forth in the Put/Call Agreement.

Upon a Put by Blackstone, there will be no guaranteed return to Blackstone. Any payment to Blackstone will be limited to Blackstone's share of the calculated equity value based on a formula set forth in the terms of the agreement.

Any payment to Blackstone will be subject to Blackstone or the Company exercising their respective rights under the Put or the Call. It is not currently possible to determine whether Blackstone or the Company will exercise such rights. Furthermore, any amount to be paid pursuant to the Put or Call is dependent on calculated equity value which is based on EBITDA of future periods. Accordingly, it is not possible at this date to estimate the future amount that may be payable to Blackstone on the exercise of the Put or the Call.

The Company provides various management and administrative services to RHC and subsidiaries under an Administrative Services Agreement for an annual fee of $250,000. If the Administrative Services Agreement becomes terminable by Blackstone due to the Company's material breach thereof or other failure to comply in any material respect, Blackstone under the Put will receive, at a minimum, its original investment plus a 25% compound return per annum thereon which increases to 27.5% in the event of a change in control of the Company, regardless of the calculated equity value.

Summarized financial data for RH Holdings for the year ended December 31, 1997 and for the period November 19, 1996 to December 31, 1996 are presented as follows:

	1997	1996
Income statement information:		
Revenue	$ **70,742**	$ 7,097
Gross margin	**55,671**	5,472
Earnings from operations	**14,834**	1,343
Payment-in-kind dividend	**8,708**	932
Net loss attributable to common shareholders	**(10,476)**	(1,460)
Balance sheet information:		
Current assets	$ **17,117**	$ 21,272
Non-current assets	**294,934**	296,562
Total assets	**312,051**	317,834
Current liabilities	**15,780**	15,510
Non-current liabilities	**169,013**	173,298
Total liabilities	**184,793**	188,808
Shareholders' equity	**127,258**	129,026

(c) Arbor The investment in Arbor, an operator of funeral homes and cemeteries in Canada, was accounted for by the equity method. The investment was sold on November 17, 1997 for cash consideration of $67,246,000 resulting in a gain before taxes of $24,099,000. The after-tax gain, net of a foreign exchange loss of $836,000, was $13,851,000. The Company's equity in the earnings of Arbor in 1997, prior to its sale, was $1,681,000 (1996 — $1,879,000, 1995 — $1,391,000).

(d) Investments of joint venture The Company is a party to a joint venture for investment purposes. The investment balance represents the Company's proportionate share of the joint venture's investment in credit card receivables. The Company's proportionate share of the joint venture's liabilities is $39,660,000 (1996 — $36,897,000), resulting in a net investment of $453,000 (1996 — $290,000). The investment matured on January 15, 1998 and the joint venture's liabilities were repaid.

NOTE 5. INSURANCE INVESTED ASSETS

	December 31, 1997		December 31, 1996	
	Carrying value	Market value	Carrying value	Market value
Fixed maturities	**$ 281,659**	**$ 290,200**	$ 256,919	$ 257,250
Equity securities	**110**	**55**	2,376	2,343
Short-term investments and other	**23,841**	**23,841**	36,954	37,016
	$ 305,610	**$ 314,096**	$ 296,249	$ 296,609

On the insurance invested assets, the Company earned $23,847,000 of investment income for the year ended December 31, 1997 (1996 — $16,883,000). Included in the market value of insurance invested assets are $8,947,000 and $461,000 of unrealized gains and losses, respectively (1996 — $1,882,000 and $1,552,000, respectively).

Maturities of fixed maturity securities, excluding mortgage-backed securities and collateralized mortgage obligations, are estimated as follows: $6,081,000 due in one year or less (1996 — $3,750,000), $30,576,000 due in one to five years (1996 — $56,000,000), $81,005,000 due in five to ten years (1996 — $47,958,000), and $52,929,000 due after ten years (1996 — $25,018,000). Maturities on a market value basis are approximately the same as the amortized cost basis at December 31, 1997. The Company had approximately $111,068,000 (1996 — $124,193,000) in mortgage-backed securities and collateralized mortgage obligations at December 31, 1997 with a market value of $115,015,000 (1996 — $124,524,000).

NOTE 6. LONG-TERM DEBT

	1997	1996
Bank revolving credit agreements, see Note 22	$ **264,729**	$ 270,489
Management Equity Investment Plan ("MEIP") bank term credit agreement due in 2001	**105,140**	107,583
Canadian bank term credit agreement due in 2000 (Cdn. $35,000,000)	**—**	25,536
9.70% Series A and C senior amortizing notes due in 1998	**—**	62,500
9.93% Series B senior amortizing notes due in 2001	**—**	35,700
9.62% Series D senior amortizing notes due in 2003	**51,429**	60,000
6.49% Series E senior amortizing notes due in 2004	**50,000**	50,000
7.50% Series 1 senior notes due in 2001	**225,000**	225,000
7.75% Series 3 senior notes due in 2001	**125,000**	125,000
8.25% Series 2 and 4 senior notes due in 2003	**350,000**	350,000
6.10% Series 5 senior notes due in 2002 (Cdn. $200,000,000)	**139,948**	—
6.70% PATS senior notes	**300,000**	—
Present value of notes issued for legal settlements discounted at an effective interest rate of 7.75%	**39,115**	40,000
Present value of contingent consideration payable on acquisitions discounted at an effective interest rate of 8.0%, see Note 21	**24,515**	34,681
Other, principally arising from vendor financing of acquired operations or long-term debt assumed on acquisitions, bearing interest at fixed and floating rates varying from 4.8% to 14.0%, certain of which are secured by assets of certain subsidiaries	**119,058**	109,436
	1,793,934	1,495,925
Less current portion	**43,507**	79,580
	$ **1,750,427**	$ 1,416,345

(a) In 1996, the Company, LGII and their senior lenders entered into a collateral trust arrangement pursuant to which the senior lenders share certain collateral on a pari passu basis. The collateral includes (i) a pledge for the benefit of the senior lenders of the shares of capital stock held by the Company of substantially all of its subsidiaries and (ii) all of the financial assets of LGII (including the shares of the capital stock held by LGII of various subsidiaries) (collectively, the "Collateral"). The Collateral is held by a trustee for the equal and ratable benefit of the various holders of pari passu indebtedness. The senior lenders consist principally of the lenders under the senior amortizing notes, senior notes and bank revolving and term credit agreements as well as the holders of certain letters of credit. At December 31, 1997, the indebtedness owed to the senior lending group subject to the collateral trust arrangement, including holders of certain letters of credit, aggregated $1,641,000,000.

(b) Certain of the above loan agreements contain various restrictive provisions, including change of control provisions and provisions restricting payment of dividends on Common and Preferred shares, restricting encumbrance of assets, limiting redemption or repurchase of shares, limiting disposition of assets, limiting the amount of additional debt, limiting the amount of capital expenditures and requiring the Company to maintain specified financial ratios.

(c) In September 1997, the Company expanded its $750,000,000 revolving credit agreement to $1,000,000,000 (the "Revolving Credit Agreement"). The expanded Revolving Credit Agreement has two components, a $750,000,000 tranche which matures in September 2002 and a $250,000,000 364 day tranche which matures in September 1998. At December 31, 1997, $234,500,000 was outstanding under this Revolving Credit Agreement.

In addition, the Company also has a Cdn. $50,000,000 revolving credit agreement which matures July 1999. At December 31, 1997, $30,229,000 (Cdn. $43,200,000) was outstanding under this Canadian revolving credit agreement.

The Company's bank revolving credit agreements and MEIP bank term credit agreement bear interest at floating rates based on U.S. Libor, Canadian Bankers Acceptance rates or the prime rates of certain banks, plus an applicable margin depending upon a combination of the Company's ability to maintain specified financial ratios and the Company's long-term debt credit ratings. The Company is also required to pay a commitment fee on the unused portion of the revolving credit agreements.

(d) In September 1997, the Company repaid in advance of its final maturity, the Canadian bank term credit agreement and in October 1997, repaid the Series A, B and C senior amortizing notes. In accordance with the terms of the notes and the bank term credit agreement, the Company incurred and expensed make-whole penalties aggregating $7,675,000 in 1997.

(e) Repayment of the senior amortizing notes commenced September 1997 for Series D and February 1998 for Series E, all in equal annual amounts to the respective due dates.

(f) In September 1997, the Company completed a public offering in Canada and a private placement in the United States of Cdn. $200,000,000 of 6.10% Series 5 senior guaranteed notes due 2002 (the "Series 5 senior notes").

(g) In September 1997, the Company completed a private placement in the United States of $300,000,000 in pass-through asset trust senior guaranteed notes, due 2009 (the "PATS senior notes"). The PATS senior notes bear interest at a rate of 6.70% until October 1, 1999, at which time the interest rate will be reset at a fixed annual rate of 6.05% plus an adjustment equal to the Company's then current credit spread to the ten year United States Treasury rate. The PATS senior notes are redeemable at the election of the holder, in whole but not in part, at 100% of the principal amount on October 1, 1999.

(h) The notes issued under legal settlements represent a promissory note in the amount of $80,000,000 payable over 20 years in equal annual installments of $4,000,000, without interest. Interest is accrued on the discounted amount and is included in accounts payable and accrued liabilities. Annual payments will eliminate this accrual and the balance will be applied to the promissory note.

(i) The Company incurred and paid approximately $103,799,000 of interest during 1997 (1996 — $91,000,000), of which approximately $2,093,000 (1996 — $2,100,000) was capitalized as cost of construction or development of cemetery property.

(j) Maturities of long-term debt are as follows:

	Total
1998	$ 43,507
1999	373,272
2000	48,092
2001	489,760
2002	401,770
Thereafter	437,533
	$ 1,793,934

NOTE 7. PREFERRED SECURITIES OF SUBSIDIARY

On August 15, 1994, 3,000,000 9.45% Cumulative Monthly Income Preferred Securities, Series A ("MIPS") were issued by Loewen Group Capital, L.P. ("LGC") in a public offering for an aggregate amount of $75,000,000. LGC is a limited partnership and LGII as its general partner manages its business and affairs. LGII serves as the holding company for all United States assets and operations of the Company. The consolidated financial statements of LGII are prepared in accordance with Canadian generally accepted accounting principles and are presented in United States dollars.

Summarized financial data for LGII are presented as follows:

	1997	1996	1995
Income statement information			
Revenue	$ **1,035,099**	$ 839,352	$ 540,825
Gross margin	**308,697**	296,566	198,867
Earnings from operations	**116,774**	179,185	75,715
Net loss	**(77,746)**	(4,868)	(127,353)
Balance sheet information			
Current assets	$ **244,552**	$ 223,388	$ 184,289
Non-current assets	**3,688,148**	2,865,005	1,776,425
Total assets	**3,932,700**	3,088,393	1,960,714
Current liabilities	**172,371**	156,290	221,555
Non-current liabilities	**3,440,175**	2,719,453	1,696,709
Total liabilities	**3,612,546**	2,875,743	1,918,264
Shareholders' equity	**320,154**	212,650	42,450

The MIPS are due August 31, 2024 and are subject to redemption at par at the option of LGC, in whole or in part, from time to time, on or after August 31, 2004.

Holders of the MIPS are entitled to receive cumulative dividends at an annual rate of 9.45% of the liquidation preference of $25 per MIPS. The dividends accrue from the date of original issuance and are payable monthly in arrears.

The Company has the right to defer payment of dividends on the MIPS for one or more periods, each not to exceed 60 consecutive months. In this event the Company may not declare or pay dividends on, or redeem, purchase or acquire or make a liquidation payment with respect to any class of its capital stock.

The Company has guaranteed certain payment obligations of LGII to LGC and of LGC to the MIPS holders. The guarantees are subordinated to all liabilities of the Company and are unsecured.

NOTE 8. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company enters into derivative transactions with financial institutions primarily as hedges of other financial transactions. The Company does not trade in financial instruments and is not a party to leveraged derivatives.

(a) Swap agreements and interest rate options The Company has entered into swap agreements and interest rate options with a number of different commercial banks and financial institutions to manage its interest rate exposure on fixed rate long-term debt. At December 31, 1997, such agreements included:

(1) Three interest rate swap agreements with commercial banks and financial institutions, each having a notional principal amount of $25,000,000. The Company will receive floating Libor based rates determined quarterly (5.938% at December 31, 1997) and will pay fixed rates of 5.755%, 6.200% and 6.190% under the agreements. The agreements expire in June 1999, June 2001 and June 2001, respectively.

(2) Three interest rate swap agreements with commercial banks, having an aggregate notional principal amount of Cdn. $100,000,000. The Company will receive a fixed rate of 6.100% and will pay floating Bankers Acceptance based rates determined quarterly (5.300% at December 31, 1997). The agreements expire in October 2002.

The Company is exposed to credit losses in the event of non-performance by the other parties to the interest rate swap agreements. However, the Company does not anticipate non-performance by the counterparties. The carrying amounts of the interest rate swap agreements approximate fair values at December 31, 1997.

NOTE 8. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

(b) Fair value of financial instruments The carrying amount of cash and term deposits, current receivables, accounts payable and accrued liabilities and liabilities of joint venture approximates fair value due to the short-term maturities of these instruments. The fair value of insurance policy liabilities and the Put/Call Agreements have been omitted because it is not practicable to determine fair value with sufficient reliability. Financial instruments with a carrying value different from their fair value include:

	December 31, 1997		December 31, 1996	
	Carrying value	Fair value	Carrying value	Fair value
(1) Financial assets				
Prearranged funeral services	$ **410,379**	$ **415,966**	$ 334,420	$ 334,420
Investments				
Practicable to estimate fair value	**40,113**	**40,113**	53,403	54,080
Not practicable	**168,244**	**—**	152,453	—
Insurance invested assets	**305,610**	**314,096**	296,249	296,609
Long-term receivables				
Practicable to estimate fair value	**275,866**	**278,415**	123,425	125,289
Not practicable	**277,797**	**—**	165,154	—
(2) Financial liabilities				
Long-term debt	$ **1,793,934**	$ **1,833,203**	$ 1,495,925	$ 1,523,468
Preferred securities of subsidiary	**75,000**	**81,375**	75,000	79,500

The fair value determination of prearranged funeral services, insurance invested assets and certain investments and long-term receivables is based on quoted market prices. For certain long-term receivables and other investments, fair value is estimated by discounting the future cash flows, including interest payments, using rates currently available for investments of similar terms and maturity. The investments for which it is not practicable to estimate fair value comprise primarily the preferred share investments in Prime and RH Holdings. The long-term receivables for which it is not practicable to estimate fair value comprise primarily installment receivables on cemetery sales, which generally have terms of three to five years and bear interest ranging from 8% to 15%.

The fair value of long-term debt subject to fixed interest rates is estimated by discounting the future cash flows, including interest payments, using rates currently available for debt of similar terms and maturity, based on the Company's credit standing and other market factors. The fair value of long-term debt subject to floating market rates approximates its carrying value. The fair value of the preferred securities of a subsidiary is estimated based upon quoted market prices.

NOTE 9. SHARE CAPITAL

(a) Authorized

200,000,000 (1996 — 200,000,000) First Preferred shares without par value
40,000,000 (1996 — 40,000,000) Class A shares without par value
750,000,000 (1996 — 750,000,000) Common shares without par value

Of the 200,000,000 First Preferred shares, 1,000,000 shares are designated as 7.75% Cumulative Redeemable Convertible First Preferred Shares without par value, Series A, 425,000 shares are designated as Convertible First Preferred Shares, Series B, see Note 9(c), and 8,800,000 shares are designated as 6.00% Cumulative Redeemable Convertible First Preferred Shares, Series C ("Series C Preferred shares"), see Note 9(c).

(b) Issued and outstanding

	Number of Shares		Stated Value
Common shares and contributed surplus			
Outstanding December 31, 1994	41,015,447	$	282,560
Issued for cash by public offering, net of expenses of $5,491,000	6,325,000		187,421
Issued for cash on exercise of stock options, including related tax benefits	415,010		6,725
Issued for cash under stock purchase plan	93,475		2,334
Issued for acquisitions	312,758		10,896
Issued under employee stock bonus plan	6,075		119
Outstanding December 31, 1995	48,167,765		490,055
Issued for cash by public offering, net of expenses of $5,558,000	7,700,000		216,576
Issued for legal settlements	2,500,000		72,000
Issued for cash on exercise of stock options, including related tax benefits	315,583		5,214
Issued for cash under stock purchase plan	20,850		708
Issued for acquisitions, see Note 2	340,537		11,651
Issued under employee stock bonus plan	12,280		227
Outstanding December 31, 1996	59,057,015		796,431
Issued for cash by public offering, net of expenses of $10,402,000	13,800,000		445,136
Issued for cash on exercise of stock options, including related tax benefits	181,086		4,813
Issued for cash under stock purchase plan	56,625		1,630
Issued for acquisitions, see Note 2	807,161		23,001
Issued under employee stock bonus plan	9,010		166
Outstanding December 31, 1997	73,910,897	$	1,271,177
Preferred shares			
Series C Preferred shares	8,800,000	$	157,146

NOTE 9. SHARE CAPITAL *(continued)*

(c) First Preferred shares First Preferred shares may be issued from time to time in one or more series and in such numbers and with such special rights and restrictions as the directors of the Company determine.

During 1994, as part of the Management Equity Investment Plan, 425,000 shares were designated as Convertible First Preferred shares, Series B of the Company. Each Convertible First Preferred share is convertible into ten Common shares at any time prior to July 13, 2011. No Series B Preferred shares have been issued.

The Series C Preferred shares were issued for cash of $157,146,000 by public offering, net of expenses of $3,776,000, in 1996. The holders of Series C Preferred shares will have the right at any time before January 1, 2003, to convert each Series C Preferred share into that number of Common shares determined by dividing Cdn. $25.00 by Cdn. $38.125. Thereafter, a holder of Series C Preferred shares will have the right on January 1, 2003, and on the first business day of each quarter thereafter, to convert all or part of such Series C Preferred shares into that number of Common shares determined by dividing Cdn. $25.00 plus accrued and unpaid dividends by the greater of Cdn. $3.00 and 95% of the Current Market Price (as defined) on the date of conversion.

The holders of the Series C Preferred shares are entitled, as and when declared by the Board of Directors, to a fixed preferential cumulative cash dividend of 6% per year, payable quarterly.

The Series C Preferred shares will not be redeemable by the Company prior to July 1, 1999.

On or after July 1, 1999, the Series C Preferred shares will be redeemable by the Company, upon giving not less than 30 days notice, at a redemption price equal to Cdn. $25.00 per share together with accrued and unpaid dividends. Prior to July 1, 2001, the redemption will only be effected by the issuance of Common shares, determined by dividing the redemption price by the greater of Cdn. $3.00 and 95% of the Current Market Price at the date of redemption. On and after July 1, 2001, the redemption may be effected by the issuance of Common shares or payment of a cash amount.

In the event of the liquidation, dissolution or winding up of the Company or other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Series C Preferred shares shall be entitled to receive the redemption price before any amounts are paid to the holders of Common shares or any other class of shares ranking junior to the Series C Preferred shares.

(d) Management Equity Investment Plan ("MEIP") 4,250,000 Common shares of the Company were reserved upon adoption by the Company of the MEIP on June 15, 1994. Senior Exchangeable Debentures amounting to $127,670,000 were issued by LGII to a wholly-owned subsidiary of LGII formed to act as agent for the MEIP. The Debentures are due July 15, 2001 and bear interest at floating rates. Each $300.40 of principal amount of Debentures will be exchangeable for one Convertible First Preferred share, Series B of the Company, each of which will be convertible into ten Common shares of the Company. As part of the MEIP, the present participants paid $3,281,000 (1996 — $3,409,000) for option rights to acquire $65,613,000 (1996 — $68,185,000) of Debentures exercisable as to 50% in 1999, 25% in 2000 and 25% in 2001, of which $751,000 was paid by the Chairman of the Company. If an option expires unexercised, the participant will receive a refund without interest of the amount paid to acquire such option right. In addition, the Chairman paid $2,253,000 for the right and obligation to acquire $45,060,000 of Debentures with the same exercise dates.

(e) Shareholder protection rights plan On April 20, 1990, the Board of Directors of the Company approved a Shareholder Protection Rights Plan (the "Plan"), which was confirmed by the shareholders in accordance with the provisions of the Plan at the Annual General Meeting on May 24, 1990. The Plan was amended on June 18, 1991 to adjust the Exercise Price consequent upon the two-for-one stock split of the Company. The Plan was also amended on April 7, 1994 to further adjust the Exercise Price and to amend the definition of "Inherited Acquisitions." The Plan was reconfirmed by the shareholders at the Annual General Meeting on May 17, 1995 for a further five-year period expiring April 20, 2000.

The Plan is meant to discourage unfair takeover bid tactics and to give the Board of Directors time, if there is an unsolicited bid, to pursue alternatives to maximize shareholder value. To preserve the shareholders' right to consider takeover bids on a fully-informed basis, the Plan provides that a bidder's position may be substantially diluted if it does not make either a "permitted bid" directly to all shareholders or negotiate with the Board for a waiver of the Plan's provisions.

Under the Plan, each Common shareholder is entitled to receive one right in certain situations. The rights however will not trade separately from the Common shares unless a takeover bid is announced or someone, excluding "Grandfathered Persons," acquires 20% of the Common shares. To the Company's knowledge, only Raymond L. Loewen and Anne Loewen are Grandfathered Persons.

The rights issued to Common shareholders under the Plan entitle the holder, upon the occurrence of certain triggering events, to acquire Common shares in the Company at a 50% discount to the market. Triggering events include the acquisition of 20% or more of the Common shares in a transaction not approved by the Board of Directors. However, the rights are not triggered by certain permitted bids that are made to all holders of Common shares and that are approved by a majority vote of independent shareholders.

By creating the potential for substantial dilution of an unfair bidder's position, the Plan encourages an acquirer to proceed by way of a permitted bid or to approach the Board with a view to negotiation. The Plan's permitted bid provision allows bidders to take bids directly to all the shareholders. The Plan thus preserves the shareholder's right to consider such bids on a fully-informed basis. The Company, at the time of the adoption of the Plan, was not aware of any pending or threatened takeover bid for the Company.

There are exceptions to the Plan to permit the acquisition of shares by (i) persons who held more than 20% of the Common shares on April 20, 1990, subject to certain restrictions, and (ii) registered pension plans whose governing legislation prohibits them from holding more than 30% and who are acquiring the Common shares independently for investment.

(f) Stock Option Plans The Company has separate fixed stock option plans for its United States and Canadian employees which enable the Company to grant options to its employees and directors. The option plans are administered by the Compensation Committee of the Company's Board of Directors. Each participant enters into an option agreement which sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options. The exercise price of an option may not be less than the market price of the Company's stock on the trading day immediately prior to the grant date and in no event may an option terminate later than ten years after the grant date of such option.

NOTE 9. SHARE CAPITAL *(continued)*

A summary status of the Company's fixed stock option plans and changes during the two years ended December 31, 1997, are as follows:

	1997		1996	
Stock options	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding beginning of year	**4,417,517**	**$ 25**	2,861,664	$ 21
Options granted	**1,639,408**	**30**	2,001,586	28
Options exercised	**(175,641)**	**23**	(315,583)	13
Options cancelled	**(99,580)**	**31**	(130,150)	25
Outstanding end of year	**5,781,704**	**$ 26**	4,417,517	$ 25
Options exercisable at end of year	**3,043,129**		1,618,262	

The following table summarizes information about the Company's fixed stock options outstanding at December 31, 1997:

Options outstanding	Number outstanding at December 31, 1997	Weighted average remaining contractual life (in years)	Weighted average exercise price
Range of exercise prices			
$ 9.70 - $20.00	**756,205**	5.6	$ 13
20.01 - 30.00	**3,411,507**	7.9	27
30.01 - 40.00	**1,600,232**	9.1	32
40.01 - 45.00	**13,760**	8.1	41
	5,781,704	7.9	$ 26

Options exercisable	Number outstanding at December 31, 1997	Weighted average exercise price
Range of exercise prices		
$ 9.70 - $20.00	**729,194**	$ 13
20.01 - 30.00	**1,955,374**	26
30.01 - 40.00	**352,767**	32
40.01 - 45.00	**5,794**	41
	3,043,129	$ 24

NOTE 10. FOREIGN EXCHANGE ADJUSTMENT

The foreign exchange adjustment account represents the net changes due to exchange rate fluctuations in the equivalent United States dollar book values of the Company's net investments in self-sustaining non-United States operations since their respective dates of acquisition.

NOTE 11. LEGAL PROCEEDINGS

Class Actions Alleging Securities Laws Violations On November 4, 1995, a class action lawsuit claiming violations of federal securities laws was filed on behalf of a class of purchasers of Company securities against the Company and five individuals who were officers of the Company (four of whom were also directors) in the United States District Court for the Eastern District of Pennsylvania. LGII, LGC, and the lead underwriters (the "MIPS Underwriters") of LGC's 1994 offering of the MIPS, were subsequently added as defendants. On November 7, 1995, a class action lawsuit was filed on behalf of a class of purchasers of Common Shares against the Company and the same individual defendants in the United States District Court for the Southern District of Mississippi alleging Federal securities law violations and related common law claims. On December 1, 1995, a class action lawsuit was filed on behalf of a class of purchasers of the Company's securities against the Company, LGII, LGC and the same individual defendants in the United States District Court for the Eastern District of Pennsylvania. On June 11, 1996 all claims against the MIPS Underwriters were dismissed without prejudice, by agreement of the parties. The cases were consolidated before the District Court of the Eastern District of Pennsylvania. A Consolidated and Amended Class Action Complaint was filed on September 16, 1996.

The parties have agreed to a settlement of all claims in the action. The settlement was submitted to the Court for approval on January 30, 1998. If approved by the Court and subject to the satisfaction of all other conditions, the settlement will provide for the payment by the Company on behalf of all defendants of $5,000,000 plus up to $100,000 for costs of notice and 50% of the costs of administration of the settlement. On February 3, 1998, the court entered a Preliminary Approval Order, in which, inter alia, it scheduled a hearing on final approval for April 20, 1998.

Esner Estate On February 1, 1995, Stuart B. Esner and Sandra Esner (the "Executors") as co-executor for the Estate of Gerald F. Esner (the "Esner Estate") filed an action in the Court of Common Pleas of Bucks County, Pennsylvania against Osiris and a law firm (the "Law Firm") that previously represented Osiris and its principal shareholders, Gerald F. Esner, Lawrence Miller and William R. Shane. Messrs. Miller and Shane currently are executive officers of the Company and LGII.

The complaint alleged that Osiris breached the terms of a Second Amended and Restated Shareholders' Agreement among Messrs. Esner, Miller and Shane (the "Shareholders' Agreement") by attempting to repurchase shares of Osiris held by the Esner Estate (the "Esner Shares") without complying with the terms of the Shareholders' Agreement, and that the Law Firm breached its fiduciary duty and committed malpractice in connection with the drafting of the Shareholders' Agreement and its representation of Esner and Osiris. The Executors asked the Court (i) to have the value of Osiris reappraised pursuant to the terms of the Shareholders' Agreement and (ii) to require Osiris to repurchase the Esner Shares pursuant to a new appraisal and the alleged terms of the Shareholders' Agreement or, alternatively, to pay the Esner Estate the fair value of the Esner Shares as determined by the new appraisal.

In March 1995, LGII purchased all of the issued and outstanding shares of Osiris, including the Esner Shares. In connection with the purchase, LGII entered into an indemnification agreement whereby Messrs. Miller and Shane agreed to indemnify and hold LGII harmless with respect to any claims, liabilities, losses and expenses, including reasonable attorney's fees, in connection with or arising from the Esner Estate litigation.

On April 9, 1996, the Executors filed a second complaint, which names Messrs. Miller and Shane and LGII as defendants. The second complaint alleges breach of contract, fraud and related claims against Messrs. Miller and Shane, and that LGII joined a civil conspiracy by acquiring Osiris. The Executors request compensatory damages of $24,300,000 against the various defendants, and seek punitive damages from Messrs. Miller and Shane. The two cases were consolidated by the Court.

On October 9, 1996, the Executors instituted a new civil action against the Law Firm. On November 18, 1996 the Executors instituted a new civil action against the individual partners of the Law Firm. In both complaints, the Executors expanded upon the allegations against the Law Firm contained in the previous complaints. By stipulation approved by the Court on February 24, 1997, the parties agreed to consolidate all suits and to permit the Executors to file a Third Amended Complaint, which was filed on February 10, 1997. The prayers for relief remain unchanged. Osiris and Messrs. Miller and Shane filed, and the Court granted, preliminary challenges to the Third Amended Complaint. The Court also dismissed the claims against LGII for failure to state a claim upon which relief can be granted, although the Third Amended Complaint does continue on unaffected counts.

The Company has determined that it is not possible at this time to predict the final outcome of these legal proceedings and that it is not possible to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to the plaintiffs. Accordingly, no provision with respect to this lawsuit has been made in the Company's consolidated financial statements.

Rojas et al. On February 22, 1995, Juan Riveras Rojas, Leyda Rivera Vega, the Conjugal Partnership constituted between them, and Carlos Rivera Bustamente instituted a legal action against Loewen, LGII and a subsidiary in the United States District Court for the District of Puerto Rico. The complaint alleges that the defendants breached a contract and ancillary agreements with the plaintiffs relating to the purchase of funeral homes and cemeteries, and committed related torts. The plaintiffs seek compensatory damages of $12,500,000, and unspecified punitive damages (although the Company is advised by counsel that there is no entitlement to punitive damages under Puerto Rican law). The Company has filed a motion to dismiss the complaint on the grounds of failure to join an indispensable party. In addition, the Company claims it has suffered damages far in excess of the amount claimed by the plaintiffs as a result of breach of contract and related torts on the part of the plaintiffs. A subsidiary of the Company has filed a complaint seeking damages in excess of $19,000,000 from the plaintiffs in the General Court of Justice of the Commonwealth of Puerto Rico. The Company has determined that it is not possible at this time to predict the final outcome of these legal proceedings and that it is not possible to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to the plaintiffs. Accordingly, no provision with respect to this lawsuit has been made in the Company's consolidated financial statements.

Feldheim et al. v. SI-SIFH Corp. et al. and Duffy et al. v. SI-SIFH Corp et al. Two complaints were filed in 1997 on behalf of individuals who claim damages in connection with funeral insurance policies allegedly issued to them by insurance companies owned, directly or indirectly, by S.I. Acquisition Associates, L.P. ("S.I."). The Company acquired the assets but not the stock of S.I. in March 1996.

In January 1997, Elmer C. Feldheim and four other individuals filed a lawsuit on behalf of themselves and a class of similarly situated individuals and/or entities against SI-SIFH Corp., SI-SI Insurance Company, Inc., Loewen Louisiana Holdings, Inc., and LGII in the Parish of Jefferson, State of Louisiana. Plaintiffs seek a class action. SI-SIFH Corp. and SI-SI Insurance Company, Inc. are affiliates of S.I.

In June 1997, Lloyd Duffy, Sr. and four other individuals filed a lawsuit on behalf of themselves and a class of similarly situated individuals and/or entities against SI-SIFH Corp., SI-SI Insurance Company, Inc., Loewen Louisiana Holdings, Inc., and LGII in the Parish of Orleans, State of Louisiana. Plaintiffs seek a class action. The Duffy complaint was filed by the same lawyers who filed the complaint in the Feldheim case, and is a virtually identical copy of the Feldheim complaint. The Duffy case is pending in the trial court and, as of the date hereof, no discovery has taken place.

The Feldheim and Duffy plaintiffs allegedly hold or held funeral insurance policies issued by insurance companies owned, directly or indirectly, by the defendants. The plaintiffs allege that (i) the defendants failed to provide the funeral services purchased with the policies by, among other things, offering a casket of inferior quality upon presentation of a policy, and (ii) in connection with the sale of the insurance policy, the insurance companies negligently or fraudulently represented and interpreted the scope and terms of the policies and omitted to provide material information regarding the policy benefits and limitations. Plaintiffs also allege unfair trade practices in violation of Louisiana's trade practices laws.

Plaintiffs petitions seek damages, penalties and attorneys fees. Louisiana law prohibits plaintiffs from alleging specific amounts of damages. Plaintiffs also seek a declaratory judgment compelling defendants to honor the policies.

On June 13, 1997, the district court in Jefferson Parish dismissed the Feldheim plaintiffs' claim to a class action, and plaintiffs have appealed. Briefing of the appeal was completed in December 1997 and oral argument was held on January 15, 1998, but a decision has not yet been rendered. As of the date hereof, no discovery has taken place.

The Company has determined that it is not possible to predict the final outcome of these legal proceedings, including whether a class will be certified, and that it is not possible to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to plaintiffs. Accordingly, no provision with respect to this lawsuit has been made in the Company's consolidated financial statements.

NOTE 11. LEGAL PROCEEDINGS *(continued)*

Other The Company is a party to other legal proceedings in the ordinary course of its business but does not expect the outcome of any other proceedings, individually or in the aggregate, to have a material adverse effect on the Company's financial position, results of operation or liquidity.

NOTE 12. RESTRUCTURING COSTS

During 1997, the Company recorded pre-tax charges of $33.4 million ($21.5 million after tax), for restructuring associated with the Company's efforts to more fully integrate its field and administrative operations and improve long-term financial performance. The restructuring charges primarily consisted of $19.4 million related to the severance of approximately 545 employees in operating locations where consolidation and clustering synergies were not being achieved, $7.5 million associated with the closure of the Company's Covington, Kentucky corporate office and $6.0 million of asset write-downs related to realignment or elimination of under-performing locations.

Actual severance paid, including to the Covington office employees, at December 31, 1997 was $15.9 million. The remaining liability for severance of $5.2 million primarily relates to benefit or salary continuance arrangements and will be fully extinguished in 1998.

NOTE 13. IMPAIRMENT OF LONG-LIVED ASSETS

During 1997, the Company recorded a charge to general and administrative expenses for an impairment loss of $12.6 million, of which $6.4 million was non-cash, related to a write down of certain under-performing assets. The impaired assets included $9.4 million related to the termination of non-competition agreements in markets where restrictive covenants no longer have value to the Company and $3.2 million of fixed assets and software costs related to the streamlining of general and administrative functions and the change in the Company's operating strategy.

NOTE 14. COMMITMENTS AND CONTINGENCIES

(a) Leases At December 31, 1997, the Company was committed to operating lease payments for premises, aircraft, automobiles and office equipment in the following approximate amounts:

	Total
1998	$ 14,469
1999	12,985
2000	11,951
2001	10,204
2002	8,810
Thereafter	49,381

Total rent expense for each of the years in the three year period ended December 31, 1997 was $18,268,000, $12,626,000 and $10,590,000, respectively.

(b) Covenants not to compete In connection with various acquisitions, the Company has entered into non-competition agreements ("covenants not to compete") with certain key management personnel of operations acquired. The Company's payments under the agreements may be made at closing or over

future periods and are expensed over the terms of the specific contracts. At December 31, 1997, the agreements in place will result in future payments in the following approximate amounts:

	Total
1998	$ 13,811
1999	12,608
2000	13,243
2001	10,533
2002	9,455
Thereafter	31,208

(c) Environmental contingencies and liabilities The Company's operations are subject to numerous environmental laws, regulations and guidelines adopted by various governmental authorities in the jurisdictions in which the Company operates. Liabilities are recorded when environmental liabilities are either known or considered probable and can be reasonably estimated. The Company's policies are designated to control environmental risk upon acquisition through extensive due diligence and corrective measures taken prior to acquisition. The Company believes environmental contingencies and liabilities to be immaterial individually and in the aggregate.

NOTE 15. RETIREMENT PLANS

The Company has a defined contribution retirement plan covering substantially all United States employees. There are no required future contributions under this plan in respect of past service. The Company has a 401(K) Retirement Savings Plan for United States employees who may defer between 2% and 15% of their compensation. The Company will match 100% of employee contributions to a maximum of 2% of employees' eligible compensation.

The Company has a Registered Retirement Savings Plan for Canadian employees who may contribute 3% of their compensation which is matched by an equal contribution to the plan by the Company on behalf of employees. There are no required future contributions under these plans in respect of past service.

The total expense for retirement plans for the three years ended December 31, 1997 was $3,222,000, $2,318,000 and $1,934,000, respectively.

NOTE 16. HOSTILE TAKEOVER PROPOSAL

On January 7, 1997, SCI publicly withdrew its unsolicited proposed offer to acquire the Company through an exchange offer announced in October 1996.

Effective as of October 10, 1996, in order to attract and retain key executives and managers of the Company in the context of a threatened change in control of the Company, the Board of Directors of the Company, upon the recommendation of the Compensation Committee thereof, approved the execution of individual change in control severance agreements ("Severance Agreements") with approximately 80 of the Company's executives and managers ("Executives"). With the exception of Mr. Loewen, certain executive officers of the Company entered into such a Severance Agreement. Under each Severance Agreement, if there is a "change in control" (as defined), an Executive becomes entitled to severance pay amounting to one to three years' compensation, and certain other benefits during the "Severance Period" (as defined), if the Executive's employment terminates for any reason other than "cause" (as defined) or the Executive terminates his or her employment for certain specified reasons. Each Severance Agreement also provides that the Executive is entitled to a retention

NOTE 16. HOSTILE TAKEOVER PROPOSAL *(continued)*

bonus if the Executive remains employed by the Company for 30 days after a change in control. Benefits under the Severance Agreements can be reduced in certain circumstances.

In addition, the Board of Directors of the Company adopted a change in control severance compensation plan ("Severance Plan") that is designed to provide certain benefits to full-time salaried employees of the Company whose principal duties include corporate or regional management responsibilities. Under the Severance Plan, upon a "change in control" (as defined), each of the participants is entitled to a severance payment if, within 24 months after a change in control, the participant is terminated other than by reason of death, voluntary termination or retirement, or for "Just Cause" (as defined). Benefits payable under the Severance Plan can be reduced in certain circumstances.

NOTE 17. INCOME TAXES

The Company's effective income tax rate is derived as follows:

	1997 %	1996 %	1995 %
Combined Canadian federal and provincial income tax rate	**45.5**	45.5	(45.5)
Non-deductible costs of hostile takeover proposal	**—**	7.6	—
Non-deductible depreciation and amortization arising from acquisitions	**22.9**	9.5	3.7
Non-deductible restructuring and other charges	**8.2**	—	—
Equity and other earnings of associated companies at lower rates	**(9.9)**	(1.7)	—
Tax benefits of legal settlements at lower rates	**—**	—	11.9
Foreign income taxed at lower rates	**(73.2)**	(30.1)	(8.9)
Other	**12.4**	0.5	0.7
	5.9	31.3	(38.1)

The Company paid income taxes for each of the years in the three year period ended December 31, 1997 amounting to $44,282,000, $21,180,000 and $19,131,000, respectively.

NOTE 18. CHANGES IN OTHER NON-CASH BALANCES

	1997	1996	1995
(Increase) decrease in assets			
Receivables, net of allowances	**$ 3,365**	$ (32,050)	$ (13,993)
Inventories	**(1,371)**	(2,689)	(2,334)
Prepaid expenses	**892**	(2,670)	(2,848)
Amounts receivable from cemetery merchandise trusts	**(89,944)**	(6,672)	(12,969)
Installment contracts, net of allowances	**(134,382)**	(64,652)	(26,552)
Cemetery property	**(37,857)**	10,923	1,128
Deferred charges	**(42,497)**	(28,684)	(11,786)
Increase (decrease) in liabilities			
Accrued settlements	**—**	(53,000)	53,000
Accounts payable and accrued liabilities	**42,364**	27,600	21,473
Cemetery long-term liabilities	**22,268**	441	(1,158)
Insurance policy liabilities	**313**	2,332	5,221
Other changes in non-cash balances	**5,737**	1,723	3,690
	$ (231,112)	$ (147,398)	$ 12,872

NOTE 19. SUPPLEMENTARY FINANCIAL INFORMATION

A summary of certain balance sheet accounts as at December 31, is as follows:

	1997	1996
Receivables, net of allowances		
Trade accounts	$ 96,529	$ 98,652
Installment contracts	140,888	80,607
Other	72,120	48,497
Unearned finance income	(25,662)	(12,422)
Allowances for contract cancellations and doubtful accounts	(32,869)	(27,717)
	$ 251,006	$ 187,617
Long-term receivables, net of allowances		
Notes receivable	$ 12,547	$ 12,093
Amounts receivable from cemetery merchandise trusts	297,739	131,748
Installment contracts	310,285	189,233
Unearned finance income	(41,655)	(24,647)
Allowances for contract cancellations and doubtful accounts	(25,253)	(19,848)
	$ 553,663	$ 288,579
Cemetery property, at cost		
Developed land and lawn crypts	$ 195,597	$ 109,708
Undeveloped land	683,833	469,421
Mausoleums	78,401	36,063
	$ 957,831	$ 615,192
Property and equipment		
Land	$ 171,060	$ 140,903
Buildings and improvements	504,722	431,820
Automobiles	75,970	66,186
Furniture, fixtures and equipment	138,534	110,901
Computer hardware and software	34,486	32,954
Leasehold improvements	14,363	11,614
Accumulated depreciation and amortization	(141,957)	(108,093)
	$ 797,178	$ 686,285
Names and reputations		
Names and reputations	$ 637,178	$ 552,803
Covenants not to compete	71,666	65,418
Accumulated amortization	(75,701)	(59,511)
	$ 633,143	$ 558,710
Other assets		
Deferred finance charges	$ 33,182	$ 33,248
Deferred direct obtaining costs	83,714	49,319
Acquisitions in progress	26,945	35,783
Other	12,795	15,793
	$ 156,636	$ 134,143

NOTE 19. SUPPLEMENTARY FINANCIAL INFORMATION *(continued)*

	1997	1996
Accounts payable and accrued liabilities		
Trade payables	$ 27,508	$ 23,784
Interest	53,352	26,009
Dividends	7,391	4,675
Insurance, property and business taxes	7,013	5,897
Other	64,944	53,707
	$ 160,208	$ 114,072
Other liabilities		
Cemetery long-term liabilities	$ 219,663	$ 141,573
Liabilities of joint venture (Note 4)	39,660	36,897
Regional partnership liabilities	12,145	13,276
Participants' deposits in MEIP (Note 9(d))	5,508	5,636
Other	31,933	19,460
	$ 308,909	$ 216,842

NOTE 20. SEGMENTED INFORMATION

The Company operates principally in North America. The following information corresponds to the Company's major industry segments.

	Funeral	Cemetery	Insurance	Corporate	Consolidated
Revenue					
1997	$ 602,112	$ 422,010	$ 89,977	$ —	$ 1,114,099
1996	549,833	286,652	71,900	—	908,385
1995	441,352	143,577	13,564	—	598,493
Depreciation and amortization					
1997	$ 50,289	$ 7,820	$ 36	$ 13,238	$ 71,383
1996	44,666	4,237	42	7,818	56,763
1995	34,101	2,210	313	3,479	40,103
Earnings from operations					
1997	$ 112,561	$ 95,699	$ 16,508	$ (76,649)	$ 148,119
1996	184,596	84,530	19,411	(84,432)	204,105
1995	148,379	37,641	2,718	(71,131)	117,607
Total assets					
1997	$ 1,942,111	$ 1,749,251	$ 331,754	$ 480,044	$ 4,503,160
1996	1,619,333	1,117,216	329,134	431,256	3,496,939
1995	1,379,951	598,766	107,076	177,187	2,262,980
Capital expenditures					
1997	$ 108,691	$ 53,023	$ 208	$ 11,157	$ 173,079
1996	136,220	36,782	1,274	9,966	184,242
1995	103,955	19,341	—	7,509	130,805

NOTE 21. RELATED PARTY TRANSACTIONS

During the years ended December 31, 1996 and 1995, as part of the normal course of operations, the Company chartered a jet aircraft, a motor vessel and a helicopter at competitive rates from companies which the Chairman of the Company owned or controlled. For each of the years in the three year period ended December 31, 1997, the total costs of the related party charters amounted to nil, $605,110 and $1,622,448, respectively, none of which remained outstanding at the year end.

During 1996, the Company purchased all of the shares of 476822 B.C. Ltd. ("BC Ltd."), which owns the motor vessel, for an effective purchase price of Cdn. $7,860,000. The motor vessel was valued at Cdn. $7,200,000 and the other assets were valued at Cdn. $660,000. A third party appraisal established the motor vessel's fair market value at Cdn. $7,350,000 and its replacement value at Cdn. $12,500,000.

The Chairman has an option to reacquire either the motor vessel and related assets (the "Boat Assets") or the shares of BC Ltd. until October 1, 2006, under certain circumstances including a change in control of the Company, at their fair market value.

During 1996, the company which owned the jet aircraft and helicopter sold them to a third party. The Company has leased the jet aircraft and helicopter from the third party at commercially reasonable terms.

As part of the acquisition of Osiris Holding Corporation ("Osiris"), the Company has recorded $19,677,000 as a long-term liability. The balance outstanding is the present value of total remaining contingent payments of approximately $23,400,000 which the Company expects to pay over a five-year period ending in 2001 to the former shareholders of Osiris, two of whom are officers of the Company.

In addition, as part of the acquisition of Shipper Management ("Shipper"), the Company has recorded $4,838,000 as a long-term liability, representing the present value of total remaining contingent payments of approximately $6,020,000 which the Company recorded in 1996 when the outcome of the contingency became determinable and which the Company expects to pay over a six year period ending in 2001 to the former shareholders of Shipper, one of whom is an officer of the Company.

At December 31, 1997, Company officers, directors and employees were indebted to the Company for approximately $9,100,000 (1996 — $6,000,000).

NOTE 22. SUBSEQUENT EVENTS

During the period from January 1, 1998 to February 27, 1998, the Company acquired 28 funeral homes and 25 cemeteries. The aggregate cost of these transactions was approximately $78,875,000.

As of February 27, 1998, the Company has committed to acquire certain funeral homes, cemeteries and related operations, subject in most instances to certain conditions including approval by the Company's Board of Directors. The aggregate cost of these transactions, if completed, will be approximately $229,345,000.

On March 27, 1998, the Company amended its Revolving Credit Agreement to provide greater flexibility for the timing of equity and other financing alternatives. As part of the amendment, the 364-day tranche was terminated and the $750,000,000 was reduced to a $600,000,000 revolving agreement with a three-year term.

NOTE 23. UNITED STATES ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. These principles differ in the following material respects from those in the United States as summarized below:

(a) Earnings (loss) and earnings (loss) per Common share

	1997	1996	1995
Earnings (loss)			
Net earnings (loss) in accordance with Canadian GAAP	$ **42,728**	$ 63,906	$ (76,684)
Less effects of differences in accounting for:			
Insurance operations (d)	**1,701**	(1,440)	—
Stock options	**(174)**	—	(191)
Income taxes (f)	**(2,024)**	2,093	1,075
Net earnings (loss) in accordance with United States GAAP	$ **42,231**	$ 64,559	$ (75,800)
Earnings (loss) per Common share			
Earnings (loss) per Common share in accordance with United States GAAP, are as follows:			
Basic earnings (loss) per Common share	$ **0.49**	$ 0.98	$ (1.67)
Diluted earnings (loss) per Common share	$ **0.48**	$ 0.97	$ (1.67)

Effective December 1997, the Company adopted Statement of Financial Accounting Standards No. 128 ("FAS 128") Earnings per Share for United States GAAP purposes, on a retroactive basis. Under FAS 128, basic earnings (loss) per Common share, similar to Canadian GAAP, is based on the weighted average number of Common shares outstanding during the year. Diluted earnings (loss) per Common share is based on the weighted average number of Common shares outstanding during the year plus common stock equivalents. The computation of basic and diluted earnings per Common shares is as follows:

	1997	1996	1995
Basic			
Net earnings (loss)	$ **42,231**	$ 64,559	$ (75,800)
Less: Preferred share dividends	**9,533**	8,874	—
Net earnings (loss) attributable to Common shareholders	$ **32,698**	$ 55,685	$ (75,800)
Weighted average number of shares outstanding	**67,313**	56,743	45,291
Basic earnings (loss) per Common share	$ **0.49**	$ 0.98	$ (1.67)
Diluted			
Net earnings (loss) attributable to Common shareholders	$ **32,698**	$ 55,685	$ (75,800)
Add: Effect of dilutive securities other than options	**—**	—	—
Diluted earnings (loss)	$ **32,698**	$ 55,685	$ (75,800)
Weighted average number of shares outstanding	**67,313**	56,743	45,291
Add: Incremental shares from conversion of dilutive options	**926**	610	—
Diluted shares	**68,239**	57,353	45,291
Diluted earnings (loss) per Common share	$ **0.48**	$ 0.97	$ (1.67)

(b) Balance Sheet The amounts in the consolidated balance sheet that differ from those reported under Canadian GAAP are as follows:

	December 31, 1997		December 31, 1996	
	Canadian GAAP	United States GAAP	Canadian GAAP	United States GAAP
Assets				
Long-term receivables, net of allowances	$ 553,663	$ 555,472	$ 288,579	$ 288,579
Investments	224,008	184,227	266,228	230,911
Insurance invested assets	305,610	312,073	296,249	297,340
Cemetery property	957,831	1,332,987	615,192	872,782
Names and reputations	633,143	668,577	558,710	586,847
Other assets	156,636	181,843	134,143	153,604
Liabilities and Shareholders' Equity				
Insurance policy liabilities	214,492	240,750	212,480	234,909
Other liabilities	308,909	266,903	216,842	179,944
Deferred income taxes	(130,913)	305,166	(67,904)	239,617
Common shares	~~1,271,177~~	~~1,297,443~~	796,431	822,378
Retained earnings	98,354	79,564	80,117	61,824
Unrealized gains/(losses) on securities available for sale, net of tax	—	5,212	—	933
Foreign exchange adjustment	13,561	(15,170)	14,506	(16,171)
PFD SHARES	157146	157146		157146

UBV... −1950.36

C$ 1397.35

(c) Statement of cash flows The statement of cash flows under United States GAAP would differ from the statement of changes in financial position under Canadian GAAP as the following non-cash transactions would not be reflected as cash flows:

1524195 → C$ 2174.56

Serie 8 = 22.88

	Years Ended December 31,		
	1997	1996	1995
Non-cash debt and share consideration on acquisitions	$ 64,881	$ 62,711	$ 105,948
Note receivable from sale of subsidiaries	15,725	—	—
Common shares and debt issued for legal settlements	—	112,000	(112,000)
Dividends payable on common and preferred shares	9,703	7,085	—
Non-cash proceeds on disposal of investment	—	2,600	—

Serie 19 = 0

Serie 112 = 0

(d) Insurance operations

Present value of insurance policies Under United States GAAP, the Company recognizes an asset that represents the actuarially-determined present value of the projected future profits of the insurance in-force at dates of acquisition. Canadian GAAP does not recognize such an asset. The asset is being amortized to insurance expense over the estimated life of the insurance in-force at the date of acquisition.

Deferred policy acquisition costs Under United States GAAP, the Company defers costs related to the production of new business, which consist principally of commissions, certain underwriting expenses, and the costs of issuing policies. Deferred acquisition costs are amortized over the expected premium-paying periods of the related policies. Canadian GAAP does not permit deferral of such costs.

Insurance policy liabilities Insurance policy liabilities, which represent liabilities for future policy benefits, are accounted for under United States GAAP using the net level premium method which involves different actuarial assumptions and methodologies than the policy premium method used for

NOTE 23. UNITED STATES ACCOUNTING PRINCIPLES *(continued)*

Canadian GAAP. In addition, under Canadian GAAP, all actuarial assumptions are re-evaluated on a periodic basis, resulting in adjustments to insurance policy liabilities and insurance costs and expenses. Under United States GAAP, assumptions established at the time a policy is written are locked in and only revised if it is determined that future experience will worsen from that previously assumed.

(e) Unrealized gains and losses Under United States GAAP, fixed maturity securities which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Fixed maturity securities classified as held-to-maturity were approximately $69,243,000 at December 31, 1997 (1996 — $83,719,000). Debt and equity securities that are held with the objective of trading to generate profits on short-term differences in price are carried at fair value, with changes in fair value reflected in the results of operations. At December 31, 1997, securities classified as trading were approximately $1,380,000 (1996 — $5,600,000). All other fixed maturity and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale and carried at fair value which was approximately $496,922,000 at December 31, 1997 (1996 — $316,028,000). Available-for-sale securities may be sold in response to changes in interest rates and liquidity needs. Unrealized holding gains and losses related to available-for-sale investments, after deducting amounts allocable to income taxes, are reflected as a separate component of stockholders' equity. There were no significant unrealized gains or losses on securities available-for-sale as of December 31, 1997. Unrealized holding gains and losses related to trading investments, after deducting amounts allocable to income taxes, are reflected in earnings.

(f) Income taxes Under United States GAAP, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Temporary differences are tax-effected at current rates whereas under Canadian GAAP, temporary differences are tax-effected at historic rates. There was no deferred tax effect of changes in tax rates during 1997.

The Company's deferred tax liabilities under FAS 109 at December 31, are as follows:

	1997	1996
Deferred tax liabilities		
Cemetery property	$ **374,759**	$ 254,995
Property and equipment	**66,878**	62,609
Deferred costs related to prearranged funeral services	**—**	5,068
Other tax liabilities	**51,918**	24,515
Total deferred tax liabilities	**493,555**	347,187
Deferred tax assets		
Legal settlements	**15,911**	16,049
Interest and intercompany management fees	**83,361**	55,119
Other tax assets, net of valuation allowance	**83,370**	36,402
Deferred costs related to prearranged funeral services	**5,747**	—
Total deferred tax assets	**188,389**	107,570
Net deferred tax liabilities	$ **305,166**	$ 239,617

The Company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. The Company's ability to realize its deferred tax assets is based on several factors, including a presumption of future profitability in certain jurisdictions and is subject to some degree of uncertainty. At December 31, 1997, the Company had a valuation allowance of $11,576,000 (1996 — $3,499,000). During the year ended

December 31, 1997, the Company increased its valuation allowance by approximately $8,077,000 (1996 — $1,271,000) for operating loss carry-forwards, primarily from acquisitions.

(g) Stock-Based Compensation The Company adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("FAS 123"), Accounting for Stock-Based Compensation, for United States GAAP purposes.

The Company continues to record compensation expense for United States GAAP purposes following the intrinsic value principles of APB 25 for Accounting for Stock Issued to Employees in accounting for the plans. Under APB 25, no compensation expense has been recognized for its stock-based compensation plans in 1997 (1996 — nil, 1995 — $191,000). Had compensation cost been determined based on fair value at the grant dates for awards under those plans consistent with the measurement provisions of FAS 123, net earnings (loss) under United States GAAP would have been $35,781,000 for the year ended December 31, 1997 (1996 — $58,860,000, 1995 — ($76,601,000)) and basic and fully diluted earnings per Common share would have been $0.39 and $0.38, respectively (1996 — $0.88 and $0.87, respectively, 1995 — ($1.69) and ($1.69), respectively). For these purposes, the fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions; dividend yield 0.5% (1996 — 0.5%, 1995 — 0.5%), expected volatility 24% (1996 — 24%, 1995 — 24%), Canadian risk-free interest rates 5.24% (1996 — 5.68%, 1995 — 7.65%) United States risk-free interest rates 5.89% (1996 — 5.57%, 1995 — 6.58%) and expected average option term of 5.0 years (1996 — 3.4 years, 1995 — 4.5 years). The weighted average fair value of the options granted is $9.15 (1996 — $6.78, 1995 — $9.42) per option.

(h) Recent Accounting Standards The FASB issued FAS 130, Reporting Comprehensive Income, and FAS 131, Disclosures About Segments of an Enterprise and Related Information which are required to be implemented during the Company's fiscal year ending December 31, 1998. These standards will affect the presentation but not the measurement of the consolidated financial statements and the related notes.

The Canadian Institute of Chartered Accountants ("CICA") issued CICA Handbook 3465, Income Taxes, which is required to be implemented for fiscal years beginning on or after January 1, 2000. This new standard is substantially consistent with the U.S. Standard, FAS 109.

NOTE 24. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

CONSOLIDATED BALANCE SHEETS[1]

Expressed in thousands of U.S. dollars

December 31	1997	1996	1995	1994
Assets				
Current assets				
Cash and term deposits	$ 36,767	$ 18,059	$ 39,454	$ 15,349
Receivables, net of allowances	251,006	187,617	115,953	70,547
Other	46,026	43,553	35,674	23,972
	333,799	249,229	191,081	109,868
Prearranged funeral services	410,379	334,420	245,854	178,982
Long-term receivables, net of allowances	553,663	288,579	167,367	67,895
Investments	224,008	266,228	86,815	78,269
Insurance invested assets	305,610	296,249	97,024	—
Cemetery property, at cost	957,831	615,192	369,022	114,861
Property and equipment	797,178	686,285	551,965	426,038
Names and reputations	633,143	558,710	424,944	314,599
Deferred income taxes	130,913	67,904	61,959	—
Other assets	156,636	134,143	66,949	35,763
	$ 4,503,160	$ 3,496,939	$ 2,262,980	$ 1,326,275
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$ 160,208	$ 114,072	$ 171,604	$ 52,136
Long-term debt, current portion	43,507	79,580	69,671	45,529
	203,715	193,652	241,275	97,665
Long-term debt	1,750,427	1,416,345	862,625	470,174
Other liabilities	308,909	216,842	138,646	84,629
Insurance policy liabilities	214,492	212,480	84,898	—
Deferred income taxes	—	—	—	8,686
Deferred prearranged funeral services revenue	410,379	334,420	245,854	178,982
Preferred securities of subsidiary	75,000	75,000	75,000	75,000
Shareholders' equity				
Common shares[2]	1,271,177	796,431	562,055	282,560
Preferred shares	157,146	157,146	—	—
Retained earnings	98,354	80,117	36,439	115,492
Foreign exchange adjustment	13,561	14,506	16,188	13,087
	1,540,238	1,048,200	614,682	411,139
	$ 4,503,160	$ 3,496,939	$ 2,262,980	$ 1,326,275
Number of funeral homes	1,070	956	815	641
Number of cemeteries	483	313	179	116
Number of funeral services	153,000	142,000	114,000	94,000
Number of employees	16,000	16,000	10,000	7,000
Business acquisitions (in millions)	$ 546.5	$ 619.6	$ 487.9	$ 265.6

[1] Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

[2] Common shares include the common shares issued for legal settlements in 1995.

1993	1992	1991	1990	1989	1988
$ 18,167	$ 12,176	$ 16,035	$ 9,706	$ 17,940	$ 3,180
51,684	37,211	27,451	25,063	10,574	5,882
20,893	16,297	10,413	7,166	3,875	2,450
90,744	65,684	53,899	41,935	32,389	11,512
175,216	146,109	127,086	104,413	49,524	33,343
30,059	11,460	5,725	2,319	—	—
3,749	1,338	915	921	—	—
—	—	—	—	—	—
48,158	24,135	15,939	15,230	3,160	2,859
346,244	284,654	216,851	159,438	79,417	52,442
199,514	126,156	87,547	72,982	25,363	17,910
—	—	—	—	—	—
19,977	15,575	10,530	6,881	2,845	4,091
$ 913,661	$ 675,111	$ 518,492	$ 404,119	$ 192,698	$ 122,157
$ 42,387	$ 26,719	$ 14,331	$ 19,417	$ 7,093	$ 5,770
6,572	7,553	6,073	6,088	4,431	2,990
48,959	34,272	20,404	25,505	11,524	8,760
334,612	239,162	187,780	150,028	69,851	52,853
23,120	16,439	9,415	5,956	375	458
—	—	—	—	—	—
5,864	2,812	1,413	385	1,364	1,485
175,216	146,109	127,086	104,413	49,524	33,343
—	—	—	—	—	—
227,968	172,133	139,151	98,031	42,418	11,828
—	—	—	—	7,566	7,566
79,867	53,382	34,651	20,720	11,275	6,414
18,055	10,802	(1,408)	(919)	(1,199)	(550)
325,890	236,317	172,394	117,832	60,060	25,258
$ 913,661	$ 675,111	$ 518,492	$ 404,119	$ 192,698	$ 122,157
533	451	365	268	131	98
70	38	23	21	7	5
79,000	64,000	52,000	34,000	22,000	18,000
5,000	4,000	3,000	2,000	1,000	1,000
$ 148.0	$ 83.2	$ 68.5	$ 140.2	$ 31.5	$ 30.8

CONSOLIDATED STATEMENTS OF OPERATIONS[1]

Expressed in thousands of U.S. dollars except per share amounts

Fiscal years ended December 31	1997	1996	1995	1994
Revenue				
Funeral	$ **602,112**	$ 549,833	$ 441,352	$ 353,904
Cemetery	**422,010**	286,652	143,577	63,424
Insurance	**89,977**	71,900	13,564	—
	1,114,099	908,385	598,493	417,328
Costs and expenses				
Funeral	**374,191**	326,892	258,872	210,471
Cemetery	**300,031**	194,725	103,726	48,003
Insurance	**73,304**	54,709	10,533	—
	747,526	576,326	373,131	258,474
	366,573	332,059	225,362	158,854
Expenses				
General and administrative	**113,707**	71,191	67,652	34,751
Depreciation and amortization	**71,383**	56,763	40,103	28,990
Restructuring costs	**33,364**	—	—	—
	218,454	127,954	107,755	63,741
Earnings from operations	**148,119**	204,105	117,607	95,113
Interest on long-term debt	**125,450**	88,932	50,913	34,203
Loss on early extinguishment of debt	**7,675**	—	—	—
Gain on sale of investment	**(24,099)**	—	—	—
Non-recurring unusual items[2]	**—**	18,678	184,914	—
Earnings (loss) before undernoted items	**39,093**	96,495	(118,220)	60,910
Dividends on preferred securities of subsidiary	**7,088**	7,088	7,088	2,678
Earnings (loss) before income taxes and undernoted items	**32,005**	89,407	(125,308)	58,232
Income taxes				
Current	**34,152**	22,544	29,379	17,053
Deferred	**(31,495)**	6,551	(76,557)	2,685
	2,657	29,095	(47,178)	19,738
	29,348	60,312	(78,130)	38,494
Equity and other earnings of associated companies	**13,380**	3,594	1,446	—
Net earnings (loss) for the year	$ **42,728**	$ 63,906	$ (76,684)	$ 38,494
Basic earnings (loss) per Common share[3]	$ **0.49**	$ 0.97	$ (1.69)	$ 0.97
Fully diluted earnings (loss) per Common share[3]	$ **0.49**	$ 0.97	$ (1.69)	$ 0.97
Dividend per Common share[3]	$ **0.200**	$ 0.200	$ 0.050	$ 0.070
Dividend per Preferred share	$ **1.083**	$ 1.008	$ —	$ —
Number of Common shares at year-end (in thousands)	**73,911**	59,057	48,168	41,015
Fully diluted weighted average number of Common shares (in thousands)	**67,313**	57,385	45,291	41,720
Common share price at year-end ($Cdn.)	$ **36.80**	$ 53.50	$ 34.38	$ 36.75
Common share price at year-end ($U.S.)	$ **25.88**	$ 39.13	$ 25.31	$ 26.50

[1] Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

[2] Non-recurring unusual items include the costs related to the hostile takeover proposal in 1996 and costs related to legal settlements in 1995.

[3] After two-for-one stock split on June 12, 1991.

1993	1992	1991	1990	1989	1988
$ 275,106	$ 202,748	$ 150,943	$ 92,391	$ 52,856	$ 35,566
27,905	16,159	11,662	8,565	4,427	1,987
—	—	—	—	—	—
303,011	218,907	162,605	100,956	57,283	37,553
166,782	123,044	90,861	55,237	29,759	20,557
21,111	12,155	8,657	5,152	3,152	1,240
—	—	—	—	—	—
187,893	135,199	99,518	60,389	32,911	21,797
115,118	83,708	63,087	40,567	24,372	15,756
28,225	17,086	12,981	7,495	4,278	2,101
21,196	16,059	11,053	5,876	3,254	2,166
—	—	—	—	—	—
49,421	33,145	24,034	13,371	7,532	4,267
65,697	50,563	39,053	27,196	16,840	11,489
21,801	19,083	14,913	10,914	7,177	4,916
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
43,896	31,480	24,140	16,282	9,663	6,573
—	—	—	—	—	—
43,896	31,480	24,140	16,282	9,663	6,573
12,501	10,571	8,421	5,776	3,798	2,899
3,213	1,143	1,294	773	417	253
15,714	11,714	9,715	6,549	4,215	3,152
28,182	19,766	14,425	9,733	5,448	3,421
—	—	—	—	—	—
$ 28,182	$ 19,766	$ 14,425	$ 9,733	$ 5,448	$ 3,421
$ 0.77	$ 0.59	$ 0.46	$ 0.39	$ 0.31	$ 0.23
$ 0.76	$ 0.58	$ 0.46	$ 0.38	$ 0.28	$ 0.22
$ 0.045	$ 0.032	$ 0.017	$ —	$ —	$ —
$ —	$ —	$ —	$ 0.288	$ 0.586	$ 0.327
38,647	35,534	32,754	28,391	19,977	12,849
38,085	34,644	31,821	25,971	19,865	16,308
$ 33.25	$ 19.63	$ 15.63	$ 12.50	$ 9.31	$ 5.31
$ 25.38	$ 15.50	$ 13.38	$ 10.63	$ n/a	$ n/a

CONSOLIDATED STATEMENTS OF OPERATIONS[1]

Expressed in thousands of U.S. dollars except per share amounts

1997	Fiscal quarters ended (unaudited) March 31	June 30	Sept. 30	Dec. 31	Year ended Dec. 31
Revenue					
Funeral	$ 155,543	$ 146,567	$ 140,400	$ 159,602	$ **602,112**
Cemetery	97,435	106,980	109,559	108,036	**422,010**
Insurance	21,719	22,101	24,177	21,980	**89,977**
	274,697	275,648	274,136	289,618	**1,114,099**
Costs and expenses					
Funeral	92,084	88,391	97,640	96,076	**374,191**
Cemetery	64,106	71,049	81,614	83,262	**300,031**
Insurance	17,989	17,101	20,885	17,329	**73,304**
	174,179	176,541	200,139	196,667	**747,526**
	100,518	99,107	73,997	92,951	**366,573**
Expenses					
General and administrative	22,683	17,562	45,905	27,557	**113,707**
Depreciation and amortization	16,826	16,574	17,709	20,274	**71,383**
Restructuring costs	—	—	36,911	(3,547)	**33,364**
	39,509	34,136	100,525	44,284	**218,454**
Earnings (loss) from operations	61,009	64,971	(26,528)	48,667	**148,119**
Interest on long-term debt	30,698	32,945	30,607	31,200	**125,450**
Loss on early extinguishment of debt	—	—	7,675	—	**7,675**
Gain on sale of investment	—	—	—	(24,099)	**(24,099)**
Earnings (loss) before undernoted items	30,311	32,026	(64,810)	41,566	**39,093**
Dividends on preferred securities of subsidiary	1,772	1,772	1,772	1,772	**7,088**
Earnings (loss) before income taxes and undernoted items	28,539	30,254	(66,582)	39,794	**32,005**
Income taxes					
Current	11,674	10,390	(29,510)	41,598	**34,152**
Deferred	(3,678)	(2,686)	6,364	(31,495)	**(31,495)**
	7,996	7,704	(23,146)	10,103	**2,657**
	20,543	22,550	(43,436)	29,691	**29,348**
Equity and other earnings of associated companies	3,157	3,718	2,599	3,906	**13,380**
Net earnings (loss)	$ 23,700	$ 26,268	$ (40,837)	$ 33,597	$ **42,728**
Basic earnings (loss) per Common share	$ 0.36	$ 0.38	$ (0.59)	$ 0.42	$ **0.49**
Fully diluted earnings (loss) per Common share	$ 0.36	$ 0.38	$ (0.59)	$ 0.42	$ **0.49**

[1] Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

CONSOLIDATED STATEMENTS OF OPERATIONS[1]

Expressed in thousands of U.S. dollars except per share amounts

1996	Fiscal quarters ended (unaudited) March 31	June 30	Sept. 30	Dec. 31	Year ended Dec. 31
Revenue					
Funeral	$ 133,259	$ 133,713	$ 130,788	$ 152,073	$ 549,833
Cemetery	53,324	67,882	77,706	87,740	286,652
Insurance	6,501	21,561	22,959	20,879	71,900
	193,084	223,156	231,453	260,692	908,385
Costs and expenses					
Funeral	77,224	80,203	80,427	89,038	326,892
Cemetery	37,650	46,690	51,852	58,533	194,725
Insurance	5,872	17,063	16,987	14,787	54,709
	120,746	143,956	149,266	162,358	576,326
	72,338	79,200	82,187	98,334	332,059
Expenses					
General and administrative	15,858	16,464	17,953	20,916	71,191
Depreciation and amortization	11,642	13,060	14,303	17,758	56,763
	27,500	29,524	32,256	38,674	127,954
Earnings from operations	44,838	49,676	49,931	59,660	204,105
Interest on long-term debt	18,488	21,058	22,925	26,461	88,932
Finance costs related to hostile takeover proposal	—	—	—	3,230	3,230
Other costs related to hostile takeover proposal	—	—	2,615	12,833	15,448
Earnings before undernoted items	26,350	28,618	24,391	17,136	96,495
Dividends on preferred securities of subsidiary	1,772	1,772	1,772	1,772	7,088
Earnings before income taxes and undernoted items	24,578	26,846	22,619	15,364	89,407
Income taxes					
Current	2,168	1,553	2,560	16,263	22,544
Deferred	5,570	6,443	3,938	(9,400)	6,551
	7,738	7,996	6,498	6,863	29,095
	16,840	18,850	16,121	8,501	60,312
Equity and other earnings of associated companies	383	639	793	1,779	3,594
Net earnings	$ 17,223	$ 19,489	$ 16,914	$ 10,280	$ 63,906
Basic earnings per Common share	$ 0.30	$ 0.30	$ 0.25	$ 0.13	$ 0.97
Fully diluted earnings per Common share	$ 0.30	$ 0.30	$ 0.25	$ 0.13	$ 0.97

[1] Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

INVESTOR INFORMATION

Publicly traded securities of The Loewen Group include Common shares and First Preferred Shares Series C and Monthly Income Preferred Securities (MIPS) of Loewen Group Capital, L.P.

Common Shares The Common shares of The Loewen Group Inc. are listed for trading under the symbol LWN on The New York Stock Exchange, The Toronto Stock Exchange and The Montreal Exchange. Prior to October 2, 1996 the Common shares of The Loewen Group Inc. were quoted on The Nasdaq National Market under the symbol LWNG.

	TSE (Cdn $)				NYSE/Nasdaq National Market			
	1997		1996		**1997**		1996	
Calendar Quarter	**High**	**Low**	High	Low	**High**	**Low**	High	Low
Quarter 1	**56.750**	**47.350**	41.125	22.500	**41.375**	**31.000**	29.875	16.375
Quarter 2	**45.000**	**30.900**	42.350	36.000	**34.875**	**27.500**	31.125	26.125
Quarter 3	**49.500**	**34.250**	58.750	36.600	**35.750**	**24.750**	42.750	26.625
Quarter 4	**39.000**	**32.000**	58.000	51.450	**28.375**	**23.000**	42.625	37.625

As of March 6, 1998 there were 2,336 record holders of the Common shares.

Transfer agent and registrar: CIBC Mellon Trust Company, P.O. Box 1900, Vancouver, British Columbia V6C 3K9 1-800-387-0825.

First Preferred Shares Series C The First Preferred Shares Series C have a par value of Cdn. $25.00 and are listed for trading on The Toronto Stock Exchange and The Montreal Exchange under the symbol LWN.PR.C.

	TSE (Cdn $)			
	1997		1996	
Calendar Quarter	**High**	**Low**	High	Low
Quarter 1	**38.250**	**32.500**	31.875	21.000
Quarter 2	**37.000**	**29.000**	32.500	28.000
Quarter 3	**36.950**	**28.000**	40.500	29.000
Quarter 4	**32.500**	**26.000**	40.500	36.000

A quarterly dividend of Cdn. $0.375 per share is payable on the last day of each quarter.

Transfer agent and registrar: CIBC Mellon Trust Company, P.O. Box 1900, Vancouver, British Columbia V6C 3K9 1-800-387-0825.

Monthly Income Preferred Securities The MIPS of Loewen Group Capital, L.P. (an affiliate of The Loewen Group Inc.) have a par value of $25.00 and are listed for trading on The New York Stock Exchange under the symbol LWNPR.

	NYSE			
	1997		1996	
Calendar Quarter	**High**	**Low**	High	Low
Quarter 1	**26.750**	**25.375**	25.375	15.625
Quarter 2	**26.750**	**25.125**	25.250	24.375
Quarter 3	**27.000**	**26.250**	26.500	24.625
Quarter 4	**27.188**	**26.500**	26.750	25.000

A monthly dividend of $0.1969 per security is payable on the last day of each month. Investors receive a Schedule K-1 representing the investor's proportionate share of the interest income of Loewen Group Capital, L.P.

Transfer agent: Chase Mellon Shareholder Services, Four Station Square, Third Floor, Pittsburgh, Pennsylvania 15219-1173.

Regional Partners

Some of the most prominent owners/managers in the funeral service industry have chosen to affiliate with The Loewen Group in a unique partnership arrangement. They remain part owners in the businesses that often bear their family names and, with the additional resources now available, are able to grow by adding many more locations in their region. Together, the regional partners and Loewen are achieving extraordinary growth.

J.C. (Buddy) Carothers
Gastonia, North Carolina

Phyllis Carothers
Gastonia, North Carolina

Steve Childress
Old Hickory, Tennessee

Norm Cutler
Wilmett, Illinois

Bruce Dunn
Lansing, Michigan

John Earthman
Houston, Texas

Arthur Grossburg
Hollywood, Florida

Al Lineberry, Jr.
Greensboro, North Carolina

Ron Lowell
Altus, Oklahoma

John Malletta, Sr.
Missoula, Montana

J.B. Malletta
Missoula, Montana

Marty Mattis
Newport, Kentucky

David Ordenstein
Kaneohe, Hawaii

Ken Ordenstein
Kaneohe, Hawaii

David Riemann
Gulfport, Mississippi

Bob Russell
Pompano Beach, Florida

Bob Studley
Hyannis, Massachusetts

Don Thackary
Bonnyville, Alberta

Bill Wagner
Hicksville, New York

Joel Weinstein
Wilmette, Illinois

Mark Weinstein
Wilmette, Illinois

Not Shown:

Hazel R. Cauthen
Lancaster, South Carolina

Bruce Earthman
William J. Earthman
Houston, Texas

Tom Glodek
Minneapolis, Minnesota

Bruce Gorsline
Tom Hoffmeyer
Lancing, Michigan

Yvon, Jean and
Gilbert Guay
Rosèmere, Québec

Doug Meeson
Robert Vay
Rochester, New York

Bill Seale
Snyder, Texas

Kris Seale
Abilene, Texas

Robert Weinstein
Buffalo Grove, Illinois

The Loewen Group Inc. Directors

Raymond L. Loewen *Chairman of the Board, President and Chief Executive Officer* *The Loewen Group Inc.*	December 1985*
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The Honorable J. Carter Beese, Jr [1,2] *Managing Director, BT Alex. Brown Inc.*	May 1995
Dr. Earl A. Grollman *Author and Lecturer*	June 1986
Timothy R. Hogenkamp *Chairman of the Board, Loewen Group International, Inc.*	March 1989
Peter S. Hyndman *Corporate Secretary, The Loewen Group Inc.*	June 1986
Albert S. Lineberry, Sr. *Chairman of the Board, Gaines Corporation*	May 1991
Charles B. Loewen [1,2,3] *President, Corporate Services International Inc.*	May 1990
Robert B. Lundgren [1,3] *Retired*	June 1986
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Lawrence Miller *Executive Vice-President, Operations, The Loewen Group Inc.*	September 1996
Ernest G. Penner *President, The Penn-Co Group*	February 1987
Kenneth T. Stevenson, P. Eng *Chairman, Pennyfarthing Development Corp.*	May 1997
The Right Honourable John N. Turner, P.C., C.C., Q.C. [1,2,3] *Partner, Miller Thomson Barristers & Solicitors*	June 1992
Paul Wagler *Senior Vice-President, Finance and Chief Financial Officer* *The Loewen Group Inc.*	March 1995

[illegible]ned Board of Directors [1] Audit Committee [2] Corporate Governance Committee [3] Compensation Committee

Corporate Management

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Executive Vice-President and Chief Administrative Officer

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Paul Wagler
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Aaron Shipper
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Gregg A. Strom
Vice-President, Cemeteries

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Jeffrey L. Cashner
Regional President, Operations, South East Region

F. Duane Schaefer
Regional President, Operations, South Central Region

Michael Stache
Regional President, Operations, North Central Region

Harry C. B. Rath
Vice-President, Operations, Eastern Canada Region

Peter A. Wiesner
Vice-President, Operations, Western Canada Region

Thomas C. Hardy
President, Chief Executive Officer, Life Insurance Group

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Vice-President, Corporate Development

J.C. Ogier Mathewes
Vice-President, Corporate Development

David J. Shipper
Vice-President, Corporate Development

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Executive Director, International

Nicholas C. Aylwin
Managing Director, The Loewen Partnership Limited

Loewen Group International, Inc. Directors

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The Loewen Group Inc.

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Regional President, Operations, North East Region
The Loewen Group Inc.

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Regional Partner and President, Carothers Holding Company, Inc.

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Regional Partner

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Honorine T. Flanagan
President, Palm Springs Mausoleum, Inc.

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Regional Partner and President
Kapala-Glodek Funeral Service, Ltd.

Dr. Earl A. Grollman
Author and Lecturer

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Senior Vice-President, Finance and Chief Financial Officer
The Loewen Group Inc.

Robert A. Weinstein
Regional Partner and President, Genesis Associates, Ltd.

John R. Wright, Sr.
President, Wright & Ferguson Funeral Home

* *Members of the Executive Committee of the Board of Loewen Group International, Inc.*

Corporate Information

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General Counsel
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Vancouver, British Columbia

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San Francisco, California

Borden & Elliot
Toronto, Ontario

Jones, Day, Reavis & Pogue
Cleveland, Ohio

Additional Information

Corporate publications including annual reports, quarterly reports, information circulars/proxy statements are available by contacting:

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1-800-347-7010
Web Site: www.loewengroup.com

The Annual General Meeting of Shareholders of The Loewen Group Inc.
will be held: Thursday, May 14, 1998
2:30 pm
Pan Pacific Hotel
999 Canada Place
Vancouver, British Columbia
Canada

For analyst and investor inquiries:
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For media inquiries:
Dave Laundy
Vice-President, Corporate Communications
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